FRESENIUS

Consolidated Financial Statements and Management Report of Fresenius SE, Bad Homburg v. d. H.

at December 31, 2007

applying Section 315 a HGB in accordance with International Financial Reporting Standards

FRESENIUS

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The Fresenius Group had an excellent year 2007. We again achieved record levels in sales and earnings, and improved profitability in all business segments. Capital expenditure on property, plant, and equipment was at a high level and assures further growth.

OPERATIONS AND BUSINESS ENVIRONMENT

GROUP STRUCTURE AND BUSINESS

Fresenius is an international health care group with products and services for dialysis, hospitals, and outpatient medical care. In addition, Fresenius focuses on hospital operations and offers engineering and services for hospitals and other health care facilities.

Fresenius AG was converted into a European Company (Societas Europaea) following the shareholder resolution of December 4, 2006. The change of legal form came into effect as from July 13, 2007, with its entry in the Commercial Register. Since then, Fresenius AG has been operating under the name Fresenius SE. After the successful expansion of the Group's international business and the strong growth in recent years, the conversion into a European Company was a consistent step in the Company's development. The SE is a modern legal form based on European law which will underline the Group's international focus and facilitate an open and international corporate culture at Fresenius. The conversion did not lead to a liquidation of the Company or to the formation of a new legal entity. Since there was no change in its legal identity, the Company's corporate structure and governance, and all shareholders' stakes in the Company remained unchanged.

As of December 31, 2007, the operating business comprised the business segments Fresenius Medical Care, Fresenius Kabi, and Fresenius ProServe, all legally independent entities managed by the operating parent company, Fresenius SE. The corporate structure remained unchanged in 2007. As from January 1, 2008, the former Fresenius ProServe business segment has been replaced by two new business segments – Fresenius Helios and Fresenius Vamed which so far have formed Fresenius ProServe. This step underlines the growing importance of the hospital operations business (HELIOS) and the engineering and services business for hospitals (VAMED). The two business segments will now be run independently and be directly represented in Fresenius SE's Management Board. The Fresenius Group is therefore now organized into four business segments: Fresenius Medical Care, Fresenius Kabi, Fresenius Helios and Fresenius Vamed.

- Fresenius Medical Care mainly focuses on dialysis care and manufactures and markets products for the treatment of patients with end stage renal disease (ESRD).
- Fresenius Kabi specializes in the production and sale of products for infusion therapy, clinical nutrition, and transfusion technology.
- Fresenius Helios operates hospitals and had a network of 60 clinics, mainly in Germany, as of December 31, 2007.
- Fresenius Vamed provides engineering and services for hospitals and other health care facilities on an international basis.

- The segment Corporate/Other comprises the holding activities of Fresenius SE, the IT service provider Fresenius Netcare and Fresenius Biotech. Fresenius Biotech is active in research and development in the field of antibody therapies. Corporate/Other also includes the consolidation measures conducted between the business segments.

Fresenius operates internationally and all business segments have a regional and decentralized structure. Responsibilities are clearly defined in line with the Company's "entrepreneur in the enterprise" management principle. Additionally, management accountability is reinforced by an earnings orientated and target-linked compensation system.

Fresenius has an international marketing and production network of about 70 production sites worldwide. Key production sites are located in the United States, China, Japan, Germany and Sweden. Production plants are also located in other European countries, Latin America, Asia and South Africa. This international production network allows us to implement our business model while meeting the most exacting logistics and regulatory requirements. The decentralized structure of the production sites also substantially reduces transportation costs and currency exposure.

Management and control

Fresenius AG's conversion into an SE has had no effect on the governance structure, apart from the change in the composition of the Supervisory Board.

The corporate organs of the Group are the Management Board, the Supervisory Board and the Annual General Meeting. Fresenius SE has a two-tier management and control system consisting of the Management Board and the Supervisory Board. This is in accordance with Regulation No. 2157/2001 on the Statute for a European Company (SE). The two boards work independently of each other. No one is allowed to be a member of both organs simultaneously.

The Management Board of Fresenius SE conducts the business and represents the Company in dealings with third parties. As from January 1, 2008, the Management Board has seven members. According to the Management Board's rules of procedure, each member is accountable for their own area of responsibility. However, the members have joint responsibility for the management of the Group. The Management Board is required to report to the Supervisory Board regularly, in particular on its corporate policy and strategies, business profitability, current operations, and any other matters that could be of significance for the Company's profitability and liquidity.

The Supervisory Board appoints the members of the Management Board and advises and supervises the Management Board in its management of the Company. It is prohibited from managing the Company directly. However, the Management Board's rules of procedure require it to obtain the Supervisory Board's approval for specific activities.

The Supervisory Board of Fresenius SE is comprised of six shareholders' representatives and six employees' representatives. All twelve members of the Supervisory Board are appointed by the Annual General Meeting. Six of the twelve members must be appointed on the basis of a proposal put forward by the employees; the Annual General Meeting is bound to the employees' proposal. In accordance with the legal form of an SE, the employee representatives may come from various European countries.

The Supervisory Board must meet at least twice per calendar half-year.

The appointment and dismissal of the members of the Management Board is in accordance with Article 39 of the SE Regulation. The articles of association of Fresenius SE also provide that deputy members of the Management Board may be appointed.

For information on compensation, please see pages 145 to 149 of the Notes.

Key products, services and business processes

Fresenius Medical Care offers a comprehensive range of products for hemodialysis and peritoneal dialysis and provides dialysis care in its own dialysis clinics in over 25 countries. Dialysis products are sold to Group clinics as well as to external dialysis care providers in more than 100 countries. Fresenius Kabi is one of the few companies to offer a comprehensive portfolio of enteral and parenteral nutrition therapies. The company also offers a broad spectrum of products for fluid and blood volume substitution as well as a range of intravenously administered (IV) generic drugs. Fresenius Kabi sells its products mainly to hospitals in approximately 100 countries. Fresenius Helios operates hospitals mainly in Germany. Fresenius Vamed provides engineering and services for hospitals and other health care facilities internationally.

Important markets and competitive position

Fresenius operates in more than 60 countries through its subsidiaries. The main markets are North America and Europe, where Fresenius generates 44 % or 43 % respectively of its sales in each region.

Fresenius Medical Care is the largest dialysis company in the world. Fresenius Kabi holds leading positions in Europe and in the growth markets of Asia-Pacific, Latin America, and South Africa. Fresenius Helios is a leading private hospital operator in Germany. Fresenius Vamed is one of the internationally leading companies in the field of health care engineering.

Legal and economic factors

The markets of the Fresenius Group are fundamentally stable and relatively independent of economic cycles due to the intrinsic importance of the life-saving and life-sustaining products and treatments that the Group offers. Furthermore, these markets are expanding, mainly for three reasons: demographics, the demand for innovative therapies in the industrialized countries, and the increasing availability of high-quality health care in the developing and newly industrializing countries.

The statement of income and the balance sheet can be influenced by currency translation effects as a result of exchange rate fluctuations, especially in the rate of the US dollar to the euro. This factor had a pronounced effect, both on the statement of income due to the changed average annual exchange rate between these currencies of 1.3705 in 2007 compared to 1.2558 in 2006 and on the balance sheet due to the changed closing rate of exchange of 1.4721 as of December 31, 2007 compared to 1.3170 as of December 31, 2006.

There were no legal aspects that significantly impacted the business performance in 2007.

Capital, shareholders, articles of association

The summary below shows the subscribed capital of Fresenius SE. On December 4, 2006, the Extraordinary General Meeting approved a share split with capital increase from the Company's funds. These resolutions were entered in the Commercial Register on January 24, 2007. As a result, the Company's subscribed capital increased by approximately € 22.6 million and the number of shares outstanding tripled. The share split did not affect the preference dividend or the minimum dividend payable on the preference shares. Three preference shares now represent the preference that one preference share previously denoted. The change became effective as of February 2, 2007.

	December 31, 2007			December 31, 2006	
	Number of shares	Subscribed capital in €	% of subscribed capital	Number of shares	Subscribed capital in €
Ordinary shares/capital	77,582,385	77,582,385.00	50 %	25,725,646	65,857,653.76
Preference shares/capital	77,582,385	77,582,385.00	50 %	25,725,646	65,857,653.76
Total	155,164,770	155,164,770.00	100 %	51,451,292	131,715,307.52

The shares of Fresenius SE are no-par-value bearer shares. The subscribed capital is divided into an equal number of ordinary and preference shares. Shareholders' rights are regulated by the German Stock Corporation Act (AktG). Additionally, the articles of association of Fresenius SE contain the following three provisions for the holders of non-voting preference shares:

1. From retained earnings for the year they will receive a dividend of least € 0.02 per preference share and higher by € 0.01 per preference share than that for an ordinary share.
2. The minimum dividend payable on preference shares takes precedence over payment of a dividend on ordinary shares.
3. If the retained earnings of one or more fiscal years is not sufficient to pay a dividend of € 0.02 per preference share, the amounts not distributed will be paid in arrears without interest from the retained earnings in subsequent fiscal years, after distributing the minimum preference dividend for those fiscal years and before payment of a dividend on the ordinary shares. The deferred payment right is a constituent of the share of profits from retained earnings of that fiscal year for which the deferred payment is made.

The Management Board is authorized, with the consent of the Supervisory Board, to increase the subscribed capital of Fresenius SE in accordance with the Annual General Meeting's resolutions on approved capital. This involves two authorizations:

- Authorization to increase the subscribed capital by a maximum nominal amount of € 12,800,000 by May 9, 2011, through one or more issues of bearer ordinary shares and/or nonvoting bearer preference shares against cash contribution and/or assets in kind (Approved Capital I).
- Authorization to increase the subscribed capital by a maximum nominal amount of € 5,496,115.20 by May 9, 2011, through one or more issues of bearer ordinary shares and/or nonvoting bearer preference shares against cash contribution and/or assets in kind (Approved Capital II). Shareholders' preemptive rights of subscription can be excluded.

In addition, there is the following conditional capital:

- The subscribed capital is increased conditionally by a maximum nominal amount of € 1,536,612.00 by the issuance of new bearer ordinary shares and nonvoting bearer preference shares (Conditional Capital I). The conditional capital increase will be executed only to the extent that subscription rights to ordinary and preference shares are issued under the 1998 Stock Option Plan and the holders of these rights exercise these rights.
- The subscribed capital is increased conditionally by a maximum nominal amount of € 4,729,422.00 by the issuance of new bearer ordinary shares and nonvoting bearer preference shares (Conditional Capital II). The conditional capital increase will be executed only to the extent that bonds convertible into ordinary and preference shares are issued under the 2003 Stock Option Plan and the holders of these convertible bonds exercise their conversion rights.

Fresenius SE does not have a share buyback program.

Direct and indirect ownership interests in Fresenius SE are listed on pages 115 and 116 of the Notes. The Else Kröner-Fresenius-Stiftung notified the Company on December 28, 2007 that they have an ownership interest in Fresenius SE of 46,582,692 ordinary shares representing 60.04 % of the voting rights.

Changes to the articles of association are made in accordance with Article 59 of the SE Regulation in accordance with Section 18 (3) of the articles of association. Unless mandatory legal provisions require otherwise, amendments of the statutes require a majority of two thirds of the votes cast or, if at least half of the subscribed capital is represented, the simple majority of votes cast. If, for the effectiveness of the passing of resolutions, mandatory legal provisions require that, in addition, a majority of the subscribed capital be represented when the resolution is passed, the simple majority of the subscribed capital represented shall be sufficient, to the extent that this is permitted by law. If the voting results in a tie a motion shall be deemed rejected. The articles of association of Fresenius SE authorize the Supervisory Board to make changes to these that relate to their wording in its respective relevant version without a resolution by the General Meeting.

Material agreements embodying contingent conditions in the event of a change of control as the result of a takeover bid exist in respect of some of our long-term financing agreements. These agreements contain customary change of control clauses that grant creditors the right of premature call in the event of a change of control, whereby, generally, the change of control has to be followed by a downgrading of the Company's rating.

CORPORATE PERFORMANCE CRITERIA, GOALS AND STRATEGY

The Management Board controls the business segments by setting strategic and operative targets and through various financial ratios according to US GAAP. In the segment report as well as in the Group Management Report all ratios of the business segments are according to US GAAP (please see pages 74 and 75 of the Notes as well as the segment report itself). In line with our growth strategy, organic growth is a key indicator. Operating income (EBIT – earnings before interest and taxes) is another useful yardstick for measuring the profitability of the business segments.

The Management Board believes that, in addition to operating income, EBITDA (earnings before interest and taxes, depreciation, and amortization) is a good indicator of the business segments' ability to achieve positive financial results and to service their financial commitments. The operating cash flow contributions of our business segments are controlled on the basis of days sales outstanding (DSO) and inventory turnover (SOI).

A key performance indicator at the Group level is the net debt/EBITDA ratio.

Financing is a central Group function over which the business segments have no control. The financial targets for the business segments therefore exclude both interest payments resulting from financing activities and tax expenses.

At Group level we use return on operating assets (ROOA) and return on invested capital (ROIC) as benchmarks for evaluating our business segments and their contribution to the value of the Group. The Group's ROIC improved from 7.4 % in 2006 to 8.4 %. The ROOA improved to 11.6 % in 2007 (2006: 10.3 %). The substantial improvement in these ratios compared to 2006 was mainly driven by the good earnings growth in all business segments. For the future we expect to achieve a continuing improvement in ROIC and ROOA.

The summary below shows ROIC and ROOA by business segment:

	ROIC		ROOA	
in %	**2007**	2006	**2007**	2006
Fresenius Medical Care	**8.4**	7.4	**12.5**	11.3
Fresenius Kabi	**14.0**	13.3	**17.7**	17.3
Fresenius Helios	**5.0**	5.0	**5.6**	5.4
Fresenius Vamed *	**-**	-	**22.8**	22.0
Group	**8.4**	7.4	**11.6**	10.3

* ROIC: Invested capital is negative due to prepayments and cash and cash equivalents.

Strategy and goals

The key elements of Fresenius Group's strategy and goals are:

- To expand our market position: Fresenius' goal is to ensure the long-term future of the Company as a leading international provider of products and services in the health care industry and grow its market share. Fresenius Medical Care is the largest dialysis company in the world with an especially strong market position in the United States. Future opportunities in dialysis will arise from international expansion in dialysis care and in renal pharmaceuticals. Fresenius Kabi is the European market leader in infusion therapy and clinical nutrition. To strengthen this position, more products in its portfolio will be rolled-out to growth markets. Further market share is also anticipated from the launch of new products in the field of intravenously administered generic drugs and new medical devices for infusion therapy and clinical nutrition. Fresenius Helios is in a strong position to take advantage of the further growth opportunities offered by the continuing privatization process in the German hospital market. Fresenius Vamed will be further strengthening its position as a specialist provider of engineering and services to hospitals and other health care facilities.

- To extend our global presence: In addition to sustained organic growth in markets where Fresenius is already established, our strategy is to diversify into new growth markets worldwide, especially in Asia-Pacific and Latin America. With our brand name, product portfolio, and existing infrastructure, we intend to focus on markets that offer attractive growth potential. Fresenius plans to make further selective acquisitions to improve the Company's market position and to diversify its business geographically.
- To strengthen innovation in the development of new products and technologies: Fresenius' strategy is to continue building on its strong position in technology, its competence and quality in patient care and its ability to manufacture cost-effectively. We are convinced that we can leverage our competence in research and development to develop products and systems that can be tailored to individual patient needs but also provide a high level of safety and user-friendliness. We intend to continue to meet the requirements of best-in-class medical standards by developing and producing more effective products and treatment methods for the critically and chronically ill. Fresenius Helios' goal is to widen brand recognition for its health care services and innovative therapies.
- To enhance profitability: Our goal is to continue to improve Group profitability. To contain costs, we are concentrating particularly on making our production plants more efficient, exploiting economies of scale, leveraging the existing marketing and distribution infrastructure more intensively and practicing strict cost control. By focusing on our operating cash flow and with efficient working capital management, we will increase our investment flexibility and improve our balance sheet ratios. Another goal is to optimize our weighted cost of capital (WACC) by deliberately employing a balanced mix of equity and debt funding.

We report on our goals in detail in the Outlook section of the Management Report on pages 38 to 47.

RESEARCH AND DEVELOPMENT

Fresenius focuses its R&D efforts on its core activities. These are:

- Dialysis and other extracorporeal therapies
- Infusion and nutrition therapies as well as related medical devices
- Antibody therapies.

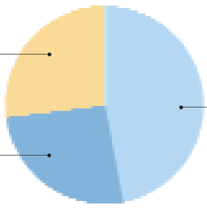
Apart from products, we are concentrating on developing optimized or completely new therapies, treatment methods, and services. In 2007, we successfully continued numerous projects and several new products were launched.

Fresenius Medical Care continued to work hard to improve dialysis therapies. Our projects' main focus was on the further development of dialyzers and on market-specific adaptations for our new 5008 hemodialysis machine. Other R&D efforts were directed toward development of a global cycler for peritoneal dialysis and extracorporeal liver support.

Fresenius Kabi concentrated on developing new products and product enhancements in its core areas of infusion therapy, clinical nutrition, and medical devices. Main developments included a new product variant for blood volume substitution and advances in intravenously administered drugs. There was also a further enhancement of three-chamber bags for parenteral nutrition and patient-specific developments for enteral nutrition.

Important projects at Fresenius Biotech involved trifunctional antibody therapies: phase II clinical studies to treat patients with breast and gastric cancer were continued. A phase II study in the indication of ovarian cancer was started. Following the successful completion of the phase II/III pivotal study in the indication of malignant ascites, the marketing authorization application was

R & D EXPENSES BY SEGMENT



2007: € 182 million

dispatched to the EMEA, the European Medicines Agency, at the end of December 2007.

Expenditure on research and development was € 182 million in 2007, 10 % more than the € 166 million spent the previous year. As in 2006, we invested about 5 % of our product sales in R & D. The pie chart shows the R & D expenses by business segment. In 2007, Fresenius Medical Care increased R & D spending by 20 % and Fresenius Kabi by 12 %. In the segment Corporate/Others R & D expenses were on previous year's level, and were mainly attributable to the clinical development of trifunctional antibodies at Fresenius Biotech. Detailed figures are included in the segment reporting on pages 56 and 57.

As of December 31, 2007, 999 people were employed in research and development in the Group (December 31, 2006: 911). Of that number, 357 were employed at Fresenius Medical Care (2006: 356), 550 at Fresenius Kabi (2006: 467), and 92 at Fresenius Biotech (2006: 88).

The table shows a historical comparison of R & D expenses and the number of employees working in R & D:

	2007	2006	2005	2004	2003
R & D expenses (in million €)*	**182**	166	147	122	121
R & D employees	**999**	911	856	819	790

* from 2004 onwards IFRS; 2003 US GAAP

Our main research sites are in Europe. Production-related research is also carried out in the United States and in China. Our research and development projects are mainly conducted in-house; external research is commissioned only on a limited scale.

OVERALL BUSINESS DEVELOPMENT

Economic environment

The strong upward trend in the global economy since 2004 subsided slightly during 2007. The trigger was the financial market crisis that emerged in the second half of the year, sparked by defaults on subprime mortgage loans in the United States. This led to a liquidity squeeze in the international financial markets and temporary sharp falls in share prices in the stock markets.

The growth in global gross domestic product (GDP) was slightly weaker than in 2006 at 5.2 % (2006: 5.4 %). The emerging economies, such as China, India and Russia, gained weight over the past years, while the importance of the two largest economies, the United States and Japan, has declined. World economic growth was mainly driven by the continued strong demand from the emerging markets.

The oil price rose steeply in 2007, reaching new record levels of almost US$ 100 per barrel. The euro firmed against the US dollar, driven by the good economic development in

SHARE OF LEADING ECONOMIES IN GLOBAL GDP GROWTH

	2007	2000	2007	2000
	in billion US$		Share in %	
United States	**13,794**	9,817	25.8	30.9
Japan	**4,346**	4,669	8.1	14.7
Germany	**3,259**	1,906	6.1	6.0
China	**3,249**	1,199	6.1	3.8
India	**1,090**	462	2.0	1.5
Russia	**1,224**	260	2.3	0.8

the Eurozone and the expectation of further interest rate hikes by the European Central Bank.

- Europe

In 2007, economic development in the Eurozone was again robust, with GDP growth of 2.6 % (2006: 2.8 %). Strong growth rates of over 3.0 % were achieved in Ireland (4.5 %), Finland (4.3 %), Greece (4.0 %), Spain (3.8 %), and Austria (3.3 %). Good economic growth in Germany contributed significantly to the economic upturn in the Eurozone. In France (1.9 %), Italy (1.8 %) and Portugal (1.8 %) growth was more modest. Driven by the dynamic momentum of expansion of the world's economy, exports rose strongly in almost all member states despite the strength of the euro. Corporate investment also was an important support for economic enterprise in the Eurozone. Private consumption was buoyant, bolstered by an impressive decline in unemployment in 2007 and the two previous years. Thanks to the encouraging economic development, the European budget scenario improved, prompting the European Union's Economic and Financial Affairs Council to drop the excessive deficit procedure pending against Germany, Greece, and Malta.

Economic development in Germany was again positive, with GDP growth of 2.6 % (2006: 2.9 %), despite the fact that the country had to assimilate its biggest ever increase in value-added tax since it was first introduced in 1968. Nonetheless, thanks to increasing incomes and the improving situation in the labor market, private consumption was only marginally below the previous year's level. Exports were again the main growth driver in 2007. Weaker demand from the United States in the wake of the US subprime crisis was more than offset by strong export sales to Asian and Central and Eastern European markets. Business confidence among German companies remained positive in 2007, reflecting their strong profitability and healthy financial situation.

The EU member states in Eastern Europe again witnessed strong growth. The highest GDP growth was in Latvia with 10.5 % (2006: 11.9 %), followed by Estonia with 8.5 % (2006: 11.2 %), and Slovakia with 9.0 % (2006: 8.5 %).

- United States

The economic situation in the United States cooled in 2007. After a modest start to the year sentiment remained optimistic, anticipating that the crisis in the private housing market would be overcome. Instead, rising interest rates and falling property prices led to the subprime mortgage market crisis later in the year. High energy prices also dampened the economy. GDP grew by 2.2 %, well below the IMF's forecast of almost 3.0 %. Private consumption continued to provide the greatest support for the economy despite increased restraint in consumer spending. Overall, domestic demand was moderate. Exports grew, buoyed by the weakness of the US dollar. In the second half of the year monetary policy focused on stabilizing the financial system. However, as a result of the uncertainties, the Federal Reserve rate was lowered from 5.25 % to 4.25 %. In 2008, the Federal Reserve rate was lowered further to currently 3.0 %.

- Asia

Asia (excluding Japan) was once again the world's fastest growing region, with GDP growth of 9.5 % (2006: 9.3 %). The vigorous economic development in China was reflected in its GDP growth of 11.4 % – above 10 % for the fifth year running. The main drivers were investment in machinery and equipment and private consumption. Exports once again played an important role. India's GDP grew by 9.0 %, the main drivers being the capital goods industry as well as information technology and processing. Japan's economy lost momentum in 2007. Despite a weaker yen and a strong world economy, the Japanese economy failed to extricate itself from a near deflationary situation. Its GDP growth decreased to 1.6 % (2006: 2.2 %). The emerging economies of Southeast

Asia took advantage of the favorable export conditions and continued to expand, proving relatively robust to the crisis in the international financial markets.

- Latin America
  The economic upswing in Latin America continued in 2007. GDP growth remained robust at an average rate of 5.0 % (2006: 5.2 %). The growth was dampened, however, especially in Mexico, by the downturn in the US economy. The region's resource and food exporting countries continued to profit from undiminished strong demand in 2007, despite high price levels. GDP growth was 8.1 % in Argentina (2006: 8.5 %), 5.3 % in Brazil (2006: 3.8 %), and 3.1 % in Mexico (2006: 4.8 %). Exports were the main growth driver. In Brazil, investments made a substantial contribution to the positive economic development. In the year of presidential elections, public consumption was high in Argentina. Private consumption remained buoyant in both countries.

Health care industry

The health care sector is one of the world's major industries and, compared with other sectors, has set itself apart through years of continuous growth and its relative insensitivity to economic fluctuations. Its main drivers in the industrialized countries are aging populations, the demand for innovative therapies and advances in medical technology. Growing health consciousness is also increasing the demand for health care services and facilities. In the emerging countries, the main growth driver is the increasing availability of primary health care.

At the same time, the cost of health care is rising and is claiming an ever increasing share of national income. Average per capita health care spending in the OECD countries increased more than 80 % between 1990 and 2005, heavily outpacing the 37 % growth in GDP. Today, one in four OECD countries spends over 10 % of its GDP on health care. In 2005, relative to GDP, the United States spent the highest percentage on health care, followed by Switzerland, France, and Germany.

Reforms and cost-containment measures are the main reactions to the steadily rising expenditures. In the past, the focus was mostly on short-term changes in the financing of medical services. Increasingly, outdated health care structures are being reviewed and market-driven elements introduced into health care systems. The goal is to create new incentives for cost-conscious as well as quality-conscious performance. The quality of treatment is a crucial factor in optimizing medical results and reducing overall treatment costs. Against this background, ever greater emphasis is being placed on disease prevention and innovative reimbursement models where the quality of treatment is the key parameter.

HEALTH CARE SPENDING AS % OF GDP

in %	1970	1980	1990	2000	2005
United States	7.0	8.8	11.9	13.2	15.3
Switzerland	5.5	7.4	8.3	10.4	11.6
France	5.4	7.0	8.4	9.6	11.1
Germany	6.0	8.4	8.3	10.3	10.7

Source: German Council of Economic Exports Annual Report 2007/2008, bank research, OECD Health Data 2007

Our most important markets developed as follows:

- **The dialysis market**

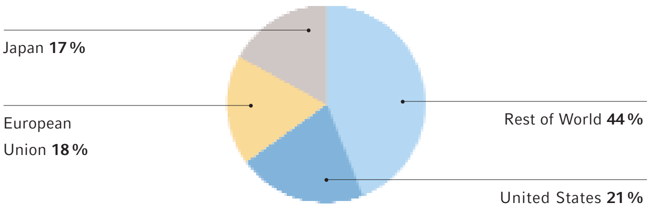
In 2007, the global dialysis market grew by approximately 5 % to a volume of about US$ 58 billion, with the market for dialysis care accounting for approximately US$ 45 billion and the market for dialysis products for about US$ 9.5 billion. Diabetes and high blood pressure are the leading causes of terminal kidney failure. Aging populations, improved treatments and higher living standards in the industrialized countries are additional reasons for the increase in patient numbers.

In more than 140 countries, patients with terminal kidney failure receive kidney replacement therapy in the form of dialysis or a transplant. The prevalence differs widely from region to region. The overwhelming majority of the patients (95 %) are treated in just 60 countries. If these 60 countries are grouped according to their economic strength in terms of per capita gross domestic product, they can be divided into three categories: the 20 strongest economies, which include the two largest dialysis markets the United States and Japan, have an average prevalence of well over 1,000 patients per million population. In countries with lower economic success, the prevalence is about 500 patients per million population, and in countries with weak economies it is approximately 100 patients per million population. These figures show that the economic situation of a country has a significant influence on access to life-saving dialysis treatment.

The number of dialysis patients worldwide increased by about 6 % in 2007. At the end of the year there were approximately 1.64 million patients receiving regular dialysis treatment. More than 89 % of these are treated with hemodialysis, while about 11 % choose peritoneal dialysis.

The majority of hemodialysis patients are treated in dialysis clinics. There are about 26,500 dialysis centers worldwide with an average of 55 hemodialysis patients per clinic. In the United States, most of the approximately 5,000 clinics are run privately, with about 1 % publicly operated. By contrast, some 60 % of the approximately 5,000 dialysis clinics in the European Union are publicly owned. In Japan, about 80 % of the dialysis clinics are run by private nephrologists.

DIALYSIS PATIENTS BY REGION



In the dialysis products market, the most important products are dialyzers, hemodialysis machines, dialysis solutions and products for peritoneal dialysis. Dialyzers are by far the biggest product segment in the dialysis market. Approximately 165 million units were sold in 2007, of which about 75 million were produced by Fresenius Medical Care. Dialysis machines are another important segment in the products business. Of the approximately 55,000 new dialysis machines that were brought onto the market in 2007, over 50 % were from Fresenius Medical Care. The top three manufacturers have a share of almost 70 % of the global market for dialysis products. Fresenius Medical Care is the market leader with a share of about 30 %.

Fresenius Medical Care is also the world leader in dialysis care. The company has further expanded its leadership in dialysis care in the United States to a market share of about 34 %. Together, Fresenius Medical Care and the second largest dialysis care provider DaVita operate about two-thirds of all the dialysis clinics in the United States. Outside the United States, the markets for dialysis care are much more fragmented.

Because treatment costs in the United States are covered primarily by public health insurers, providers mainly compete on quality and availability. In most countries outside the United States, Fresenius Medical Care competes mainly with independent clinics and clinics that are affiliated to hospitals. Terminal kidney failure is one of the few chronic diseases whose treatment is covered by the public health insurers in the United States. The two public health care programs Medicare und Medicaid cover the medical services for more than 80 % of all dialysis patients in the United States. Changes in the reimbursement rates or in the method of reimbursement therefore have special relevance for our North America business.

The following changes in the reimbursement system came into force in the United States in 2007:

- As from April 1, 2007, the Medicare reimbursement rate per dialysis treatment (Composite Rate) was increased by 1.6 % over the previous year.
- The level of reimbursement for renal pharmaceuticals such as erythropoietin (EPO) that have to be billed separately, decreased in 2007. The average sale price (ASP) plus 6 % serves as the basis for reimbursement. A fall in the ASP for this drug resulted in a decrease in the reimbursement for EPO in 2007.

In 2007, there was an extensive discussion in the United States about the treatment of anemia in dialysis patients. Hemoglobin levels are measured frequently to ensure adequate medical treatment with erythropoiesis stimulating agents (ESA) like EPO. For dialysis patients the recommended hemoglobin level is in the range 10 to 12 g/dl of blood; this was also assessed as adequate by several US authorities in 2007.

There were also intensive discussions about a possible extension of a so-called Medicare Secondary Payor extension (MSP). The key issue is whether private health insurers will have to bear the costs of their dialysis patients for longer than the present period of 30 months. After this, the public health programs take over the costs. Since no decision had yet been reached by the end of 2007, there have been no changes in this regard.

The market for infusion therapy and clinical nutrition

Demographic changes, the resulting increased need for medical services, and the demand for innovative therapies are the main growth drivers for this market. In the emerging economies, the growth in national incomes is the trigger for higher health care spending.

However, market conditions for infusion therapy and clinical nutrition products vary widely from region to region:

In Central and Western Europe, cost-containment measures and health care reforms are the key factors affecting the public health systems. Therapies that lead to better clinical outcomes while reducing the length of hospital stays are increasingly gaining importance in these countries. Patients with nutritional deficiencies have poorer chances of recovery than patients with a normal nutritional status. These deficiencies can lead to higher treatment costs and longer hospital stays. Nutritional therapy measures are therefore becoming increasingly important, not only on health grounds but also for economic reasons. At the same time, cost pressures in hospitals, budget caps, and health care cost-containment schemes are continuing the shift away from inpatient care to more outpatient care. Outpatient clinical nutrition therapies should therefore gain in importance.

In Central and Western Europe, the total market for infusion therapy and clinical nutrition is currently growing at a low single-digit rate. The market for intravenously administered generic drugs for hospitals is growing at a mid single-digit rate. More and more generic drugs are being used as a result of the cost pressure. The expiration of patents for many original drugs will further accelerate this growth. Proven off-patent substances will then be used in generic products.

The market for medical devices for infusion therapy and clinical nutrition in Europe is continuing to grow at mid single-digit rates. Here, the main growth drivers are technical innovations that focus on treatment safety and therapy efficiency.

In the growth regions of Asia-Pacific, Latin America and Eastern Europe, where the main focus is on the provision of primary health care to the population, there is increasing demand for life-saving and life-prolonging health care services. Growth rates in our product markets here are in the high single to double digits.

Based on its own surveys, Fresenius Kabi assumed its relevant market for infusion solutions and clinical nutrition to be in the range of € 9 billion.

The German hospital market

The total volume for hospital treatment (excluding research and teaching) in Germany was about € 65 billion in 2006. Personnel costs accounted for about 63 % and material costs for about 37 %. Cost increases were largely driven by 5.9 % higher material costs. Personnel costs only rose 0.6 %.

For over 15 years the number of hospitals, the number of available beds, and the length of stay have been steadily declining in Germany due to overcapacity. Nonetheless, with 6.4 beds per 1,000 population in 2005, Germany is still well above the OECD average of 3.9.

KEY FIGURES FOR INPATIENT CARE IN GERMANY

	2006	2005	Change
Hospitals	**2,104**	2,139	-1.6 %
Available beds	**510,767**	523,824	-2.5 %
Number of admissions (in million)	**16.83**	16.54	1.8 %
Beds per 1,000 population	**6.2**	6.4	-0.2
Average costs per admission (€)*	**3,932**	3,813	3.1 %
Length of stay (days)	**8.5**	8.7	-0.2

* total costs, gross

The average stay of a patient in an acute care clinic (excluding specialized psychiatric clinics) in Germany was 8.5 days at the end of 2006. The average length of stay at the HELIOS acute care clinics in 2006 was 7.1 days, a result of their efficient processes.

After reaching a peak of 17.4 million in 2002, the number of inpatient admissions in Germany declined in the following three years. Among other things, this was due to the introduction of DRG-based (Diagnosis Related Groups) reimbursement which led to an increased reduction in unnecessary referrals and to a growing number of outpatient treatments. In 2006, the number of hospital admissions rose slightly. While the number of admissions in the area of advanced medicine is expected to rise as a result of demographic changes, the shift toward outpatient treatment for less acute cases is likely to continue. Germany registered 204 inpatient hospital admissions per 1,000 population in 2006, a much higher figure in comparison to other countries. In the United States, for instance, it was 117 admissions in 2005. Other countries, rank well below the German level with figures in the range of 150 admissions per 1,000 population. The pressure on inpatient hospital capacities in Germany is therefore likely to persist. The HELIOS Kliniken nonetheless managed to increase their number of admissions. HELIOS plans to strengthen inpatient care by widening its range of medically complex treatments that have to be provided on an inpatient basis and by enhancing the quality of the care provided, especially in the area of advanced medicine.

The rising number of hospital admissions at the HELIOS Kliniken and patient surveys show that patients also regard the selective, medically justified reduction of length of stay through optimized processes as positive.

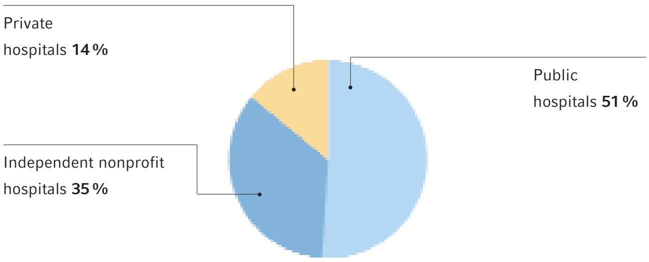
The necessary structural adjustments in Germany in terms of the number of hospitals and available beds are aggravated by the difficult financial and economic situation found at many hospitals. The main factors here are rising investment needs in response to higher quality requirements and technological advances, and an increasingly competitive environment as reimbursement is standardized. It is estimated that the current annual investment backlog is approximately € 5 billion. Hospital competitiveness is therefore also dependent on their ability to self-finance these investments. In 2007, HELIOS Kliniken added € 149 million from their own funds to the grant-financed investments received from the federal states, thereby further improving its competitive position.

The German hospital market faced considerable burdens in 2007 including: the need to deduct 0.5 % from bills issued to public health insurers to implement the hospitals' contribution toward improving the finances of the public health insurance system; an increase in VAT; a wage tariff increase for hospital doctors; and additional costs resulting from EU legislation on working hours. It is expected that only about 40 % of hospitals will make a net profit in 2007.

The privatization trend in the German hospital market continued in 2007. However, the process slightly slowed down.

Hospital beds by operator was as follows in 2006:

HOSPITAL BEDS BY OPERATOR 2006



Quality continues to be a key competitive factor in the hospital market. The structured quality reports, which all acute care hospitals in Germany have been required to publish since 2005, provide information on the type and number of treatments and their quality. The transparency and comparability of the treatments for the patients and their doctors will play an increasingly decisive role.

The Management Board's assessment of the effect of general economic developments and developments in the health care sector for Fresenius

On the whole, the global economy and the health care sector – in the mature and the growth markets – developed positively for Fresenius in 2007. While these factors were responsible for much of the Group's growth, strong demand for its products and services enabled Fresenius to outpace the growth of the health care industry as a whole.

Significant factors affecting operating performance

In 2007, the positive development was driven to a large extent by the excellent performance of the business segments, where significant increases in sales and in earnings were achieved. Currency changes, especially in the US dollar/euro exchange rate, had an important impact. The Group statement of income was also affected by a number of acquisitions and divestitures, partly from 2006. The principal acquisitions were: Renal Care Group, the Taiwanese dialysis provider Jiate Excelsior, Renal Solutions in the United States, and HUMAINE Kliniken,

Sources: German Federal Statistics Office, OECD Indicators – 2007 edition; German Medical Association, "Growing Trend towards Hospital Privatizations in Germany"; Krankenhaus-Barometer survey 2007 as well as two hospitals in the state of North Rhine-Westphalia and one near Lake Constance. Städtische Kliniken Krefeld was consolidated in the balance sheet as of December 31, 2007. Fresenius Kabi acquired Nestlé's enteral nutrition business in France (Novartis Nutrition S.A.S.) and Spain (Nestlé España) in 2007. The perfusion business of the subsidiary Fresenius Medical Care Extracorporeal Alliance and the engineering companies Pharmaplan and Pharmatec were divested. However, the impact of these acquisitions and divestitures in the Group balance sheet as of December 31, 2007, was not significant.

The Management Board's assessment of the business results

The Management Board is of the opinion that the economic development of the Fresenius Group in 2007 was again excellent – with sales, earnings and margin improvements in all business segments. The two business segments Fresenius Medical Care and Fresenius Kabi profited from the continued strong demand for their products and services and generally outperformed the market. This was reflected in sustained strong organic growth and higher profitability. Fresenius Helios also achieved very good organic growth and further improved its operating margin. As expected, Fresenius Vamed, was able to report good sales and earnings growth in 2007.

Comparison of the actual business results with the forecasts

As the summary below shows, all the targets set by Fresenius for 2007 were achieved or exceeded.

Based on the excellent operating performance in the first three quarters, at the end of October 2007 Fresenius again raised its forecasts for sales and net income. With sales growth of 10 % in constant currency, Fresenius fully achieved its forecast of a 9 to 10 % increase. The target of over 25 % for net income in constant currency was also fully achieved with growth of 32 % (US GAAP: 28 %). This was mainly attributable to the even better than expected performance of Fresenius Medical Care and Fresenius Helios. The net debt/EBITDA ratio was below the target range of 2.8 to 3.0, and was 2.6 as of December 31, 2007. Fresenius invested € 712 million (US GAAP: € 705 million) in property, plant and equipment and in intangibles in 2007. That is slightly above the projected € 600 to 700 million.

RESULTS OF OPERATIONS, FINANCIAL POSITION, ASSETS AND LIABILITIES

Fresenius' acquisitions in 2007 were in the area of dialysis, infusion and clinical nutrition therapy and in hospital operations. They included Fresenius Medical Care's acquisition of Jiate Excelsior, Taiwan's leading dialysis provider, as of

Group*	Targets for 2007 announced in February 2007	Raised target announced in August 2007	Raised target announced in October 2007	**Achieved in 2007 (US GAAP)**	**Achieved in 2007 (IFRS)**
Sales (growth, in constant currency)	8 to 10 %		9 to 10 %	**10 %**	**10 %**
Group net income (growth, in constant currency)	20 to 25 %	~25 %	more than 25 %	**28 %**	**32 %**
Capital expenditure	€ 600 to 700 million			**€ 705 million**	**€ 712 million**
Net debt/EBITDA	2.8 to 3.0			**2.6**	**2.6**

* All Group targets according to US GAAP

January 1. The company achieved sales of approximately US$ 85 million in 2007. Fresenius Medical Care also acquired Renal Solutions in the United States, adding an important technology for expanding its home hemodialysis business.

Fresenius Kabi completed various acquisitions in 2007, including Nestlé's enteral nutrition business in France and Spain with annual sales of € 55 million.

Expansion in the German hospital market was also continued. In 2007, Fresenius Helios acquired a total of three hospitals in Germany with annual sales of about € 54 million. The acquisition of two hospitals in Krefeld and Hüls with sales of € 175 million was completed as of December 31, 2007.

The two companies Pharmaplan and Pharmatec, which provide engineering services for the pharmaceutical industry, were sold as of January 1, 2007 and June 30, 2007, respectively. The Extracorporeal Alliance perfusion business with sales of US$ 110 million in 2006 was also sold. The business was no longer consolidated at Fresenius Medical Care as from May 9, 2007.

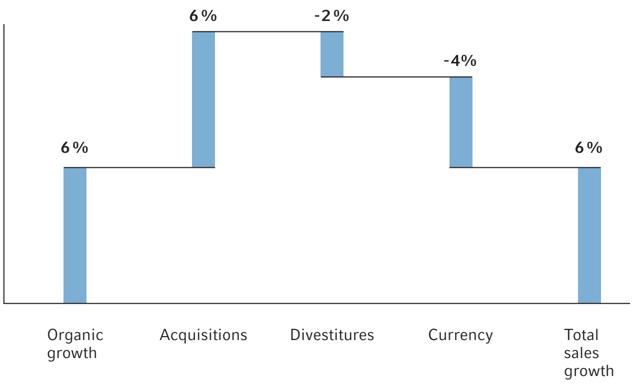
RESULTS OF OPERATIONS

Sales

In 2007, we increased Group sales by 6 % to € 11,391 million (2006: € 10,776 million). Organic growth reached 6 % and acquisitions contributed 6 % to the growth in sales. Divestitures had an impact of -2 %. Currency translation had an effect of -4 %. The table shows the various influences on Fresenius' Group sales. There were no significant consequences from the changes in product mix. Price effects in the dialysis care business contributed positively. In the foreseeable future no significant changes in these items are anticipated.

The largest regions in the Group were North America and Europe, which contributed to total sales 44 % and 43 % respectively. These were followed by Asia-Pacific with 7 % and Latin America and Africa with 4 % and 2 %, respectively.

SALES GROWTH ANALYSIS



Germany contributed 22 % to Group sales.
We increased sales significantly in all regions of the world. In North America, sales rose 10 % in constant currency. This was driven by organic growth of 5 % and the full-year consolidation of Renal Care Group. In Europe, organic growth of 5 % was the main driver. We again achieved strong organic growth in Asia-Pacific with 9 %, and in Latin America with 10 %, and in Africa with 26 %. The sales split by region is shown on the following page.

Sales performance by business segment was as follows:

- Fresenius Medical Care achieved a sales increase of 5 % to € 7,093 million in 2007 (2006: € 6,768 million). This was mainly driven by very good organic growth of 6 %, as well as by acquisitions (7 %). Currency translation had an effect of -7 %. Divestitures had an impact of -1 %. Fresenius Medical Care achieved strong growth both in dialysis care and in dialysis products.
- Fresenius Kabi increased sales by 7 % to € 2,030 million (2006: € 1,893 million). The company achieved strong organic growth of 8 %. Currency translation had an effect

of -2 %. This was mainly attributable to the weaker currencies in South Africa, China, Mexico and Canada. Performance in Asia-Pacific was excellent. Here, Fresenius Kabi achieved strong organic growth of 22 %.

- Fresenius ProServe achieved sales of € 2,268 million in 2007 (2006: € 2,155 million). Organic growth was 3 %. Acquisitions contributed 7 % to the growth in sales, while among others the divestiture of Pharmaplan and Pharmatec had a negative effect of 5 %. € 1,841 million of Fresenius ProServe's sales were generated by Fresenius Helios (2006: € 1,673 million). The company achieved very good growth of 10 %, with organic growth contributing 3 % and acquisitions 9 %. Divestitures had an impact of -2 %. Fresenius Vamed contributed € 408 million to Fresenius ProServe's sales (2006: € 392 million), an increase of 4 %. Order intake in Fresenus ProServe's engineering business was € 418 million (2006: € 407 million). The deconsolidation of Pharmaplan and Pharmatec was largely responsible for the only moderate increase. Order backlog rose 19 % to € 510 million (December 31, 2006: € 428 million). Order intake attributable to Fresenius Vamed was € 395 million, an increase of 17 % (2006: € 337 million). Order backlog at Fresenius Vamed rose 32 % to € 510 million (December 31, 2006: € 387 million).

Earnings structure

We achieved excellent growth rates in net income in 2007: Group net income rose 28 % to € 422 million. Currency translation had an effect of -4 %. Growth in constant currency was 32 %. All business segments contributed to this success. Net income in 2006 had included one-time expenses of € 26 million mainly associated with the acquisition of Renal Care Group and the early refinancing of Group debt. Adjusted by

SALES BY REGION

in million €	2007	2006	Change	Organic growth	Currency translation effects	Acquisitions/ Divestitures	% of total sales
Europe	**4,852**	4,535	7 %	5 %	0 %	2 %	43 %
North America	**4,965**	4,862	2 %	5 %	-8 %	5 %	44 %
Asia-Pacific	**802**	696	15 %	9 %	-5 %	11 %	7 %
Latin America	**488**	452	8 %	10 %	-3 %	1 %	4 %
Africa	**284**	231	23 %	26 %	-4 %	1 %	2 %
Total	**11,391**	10,776	6 %	6 %	-4 %	4 %	100 %

SALES BY BUSINESS SEGMENT*

in million €	2007	2006	Change	Organic growth	Currency translation effects	Acquisitions/ Divestitures	% of total sales
Fresenius Medical Care	**7,093**	6,768	5 %	6 %	-7 %	6 %	62 %
Fresenius Kabi	**2,030**	1,893	7 %	8 %	-2 %	1 %	18 %
Fresenius ProServe	**2,268**	2,155	5 %	3 %	0 %	2 %	20 %
- thereof Fresenius Helios	**1,841**	1,673	10 %	3 %	0 %	7 %	16 %
- thereof Fresenius Vamed	**408**	392	4 %	4 %	0 %	0 %	4 %

* All amounts according to US GAAP

STATEMENT OF INCOME (SUMMARY)

in million €	2007	2006	Change	Change in constant currency
Group sales	11,391	10,776	6 %	10 %
Cost of sales	-7,687	-7,339	-5 %	-9 %
Gross profit	3,704	3,437	8 %	13 %
Operating expenses	-2,057	-1,994	-3 %	-7 %
EBIT	1,647	1,443	14 %	20 %
Net interest	-368	-395	7 %	2 %
Income taxes	-469	-413	-14 %	-19 %
Minority interest	-388	-305	-27 %	-34 %
Group net income	422	330	28 %	32 %
Earnings per ordinary share (in €)	2.72	2.15	26 %	31 %
Earnings per preference share (in €)	2.73	2.16	26 %	31 %
EBITDA	2,074	1,849	12 %	18 %
Depreciation and amortization	427	406	5 %	9 %

this amount, net income would have increased 19 % in 2007. Inflation had no significant effect on results of operations in 2007.

Group EBITDA increased 18 % in constant currency and 12 % at actual rates to € 2,074 million (2006: € 1,849 million). Group EBIT increased 20 % in constant currency and 14 % at actual rates to € 1,647 million (2006: € 1,443 million, or € 1,460 million adjusted for the gain from the divestitures of dialysis clinics in the United States and one-time expenses associated with the acquisition of Renal Care Group).

EBIT of the individual business segments developed as follows:

in million €*	2007	2006	Change
Fresenius Medical Care	1,153	1,050	10 %
Fresenius Kabi	332	291	14 %
Fresenius ProServe	181	154	18 %
- thereof Fresenius Helios	155	133	17 %
- thereof Fresenius Vamed	26	23	13 %

* All amounts according to US GAAP

- Fresenius Medical Care increased EBIT by 10 % to € 1,153 million (2006: € 1,050 million, or € 1,054 million adjusted for the gain from the divestitures of dialysis clinics in the United States and netted with one-time expenses mainly for the integration of Renal Care Group). The very good increase in operating profit was driven by the performance of the dialysis care business as well as by significant improvements in the international business. In addition, currency translation had a negative effect of 7 %.
- In 2007, Fresenius Kabi sustained the excellent earnings performance achieved in 2006. EBIT increased by 14 % to € 332 million (2006: € 291 million). The EBIT margin increased to 16.4 % (2006: 15.4 %). This growth was driven by a good operating performance in all regions, by cost optimization and efficiency improvement measures, and by changes in the product mix.
- Fresenius ProServe achieved a very good EBIT performance. In 2007, this business segment had an EBIT of € 181 million (2006: 154 million), an increase of 18 %. Fresenius Helios contributed € 155 million (2006: € 133 million) and Fresenius Vamed € 26 million (2006: € 23 million) to Fresenius ProServe's EBIT.

VALUE ADDED STATEMENT

in million €	2007	%	2006	%
Creation				
Company output	**11,522**	**100**	10,798	100
- Materials and services purchased	**5,311**	**46**	5,051	47
Gross value added	**6,211**	**54**	5,747	53
- Depreciation and amortization	**427**	**4**	406	4
Net value added	**5,784**	**50**	5,341	49
Distribution				
Employees	**4,044**	**70**	3,810	72
Governments	**562**	**10**	501	9
Lenders	**368**	**6**	395	7
Shareholders	**103**	**2**	89	2
Company and minority interest	**707**	**12**	546	10
Net value added	**5,784**	**100**	5,341	100

Development of other major items in the statement of income

Group gross profit increased to € 3,704 million, exceeding the € 3,437 million in 2006 by 8 % (13 % in constant currency). We improved the gross profit margin to 32.5 % (2006: 31.9 %). The cost of goods sold rose 5 % to € 7,687 million (2006: € 7,339 million). This is 67.5 % of Group sales, compared to 68.1 % in 2006. Sales, general, and administrative expenses consisted primarily of personnel costs, marketing and distribution costs as well as depreciation and amortization. These expenses rose by 3 % to € 1,875 million in 2007 (2006: € 1,828 million) and, as a percentage of Group sales, were improved slightly to 16.5 % (2006: 17.0 %). Depreciation and amortization were € 427 million (2006: € 406 million). As a percentage of sales, depreciation and amortization was 3.7 % (2006: 3.8 %).

Group net interest expenditure was € -368 million, € 27 million below the figure of € -395 million in 2006. In 2006, one-time expenses of € 30 million associated with the early refinancing of Group debt were included in net interest expenditure. Exchange rate changes also had a positive effect on net interest expense since about 53 % of the financial liabilities are in US dollars. The currency effect was € 21 million.

The tax rate was 36.7 % in 2007 (2006: 39.4 %, or 37.1 % adjusted for the tax expenses associated with the divestiture of dialysis clinics in the United States since the goodwill attributable to the clinics was not considered for tax purposes).

Minority interest increased to € 388 million in 2007 from € 305 million in 2006, mainly due to the good earnings performance at Fresenius Medical Care. Of this, 92 % was attributable to the minority interest in Fresenius Medical Care.

Earnings per ordinary share were € 2.72 (2006: € 2.15) and earnings per preference share were € 2.73 (2006: € 2.16). This is an increase of 26 % for both share classes.

Profitability also improved significantly in 2007, as the table below shows:

in %	2007	2006
EBITDA margin	**18.2**	17.2
EBIT margin	**14.5**	13.4
Return on sales (before taxes and minority interest)	**11.2**	9.7

Value added

The value added statement shows Fresenius' total output in 2007 less purchased goods and services and less depreciation and amortization. The value added of the Fresenius Group was € 5,784 million in 2007 (2006: € 5,341 million). This is an increase of 8 %. The distribution statement shows that, at € 4,044 million or 70 %, the largest portion of our value added went to our employees. Governments and lenders came next with € 562 million and € 368 million, or 10 % and 6 %, respectively. Shareholders received € 103 million and minority interest € 388 million. The Company retained € 319 million for reinvestment.

FINANCIAL POSITION

Financial management policies and goals

Ensuring financial flexibility is the key to the financing strategy of the Fresenius Group. We achieve this flexibility through a broad spectrum of financing instruments and the wide diversification of our investors. The maturity profile is characterized by a broad spread of maturities with a large proportion of mid- to long-term financing.

Sufficient financial cushion is assured for the Fresenius Group by the revolving syndicated credit lines that are only partly drawn and the unused bilateral credit lines at our disposal. Market capacity, investor diversification, flexibility, credit covenants, and the current maturity profile are all taken into consideration when selecting financing instruments. At the same time, we seek to optimize our financing costs.

In line with the Group's structure, financing for Fresenius Medical Care and for the rest of the Fresenius Group is administered separately. There are no joint loans or credit agreements and no mutual guarantees. The Fresenius Kabi and Fresenius ProServe business segments were financed primarily through Fresenius SE in order to avoid any structural subordination.

Financing

Fresenius meets its financing needs through a combination of operating cash flows generated in the business segments and short-, mid-, and long-term debt. In addition to traditional bank financing, important financing instruments include the issuance of senior notes, Euro notes, trust preferred securities, a commercial paper program, and an accounts receivable securitization program.

In 2007, Group financing activities were confined to refinancing operations. The manner in which the refinancing operations were structured widened our financing scope and increased our financial flexibility.

Two capital market transactions were undertaken and were successfully completed before the conditions on the debt markets deteriorated sharply in the third quarter of 2007 in the wake of the subprime mortgage crisis in the United States and the difficulties experienced in the syndication of banks' extensive loan commitments for financing large debt-leveraged takeover deals:

- On July 2, 2007, a € 200 million private placement with European investors was completed. A syndicated senior unsecured Euro note was offered in four tranches. The placement was divided into tranches of € 100 million, with maturities of five and seven years respectively, with a fixed-rate tranche and floating rate tranche. The Euro note was issued by Fresenius Finance B.V. and guaranteed by Fresenius SE. The proceeds were used, among other things, to refinance a € 126 million Euro note issued in 2004. The very positive response in the capital market and strong interest among investors led to the originally planned volume being several times oversubscribed. Therefore, we were able to place a slightly higher volume on very attractive terms.
- Fresenius Medical Care issued US$ 500 million of senior notes on July 2, 2007, mostly placed with institutional investors in the United States. These were senior unsecured bonds with a maturity of ten years and a coupon of $6\,^7/_8$ %. The senior note was issued by Fresenius Medical Care Finance III S.A. (Luxembourg) with guarantees from

Fresenius Medical Care AG & Co. KGaA, Fresenius Medical Care Holdings, Inc., and Fresenius Medical Care Deutschland GmbH. The net proceeds from the issue were used to reduce the loans (Term Loan A and Term Loan B) drawn under the US$ 4.6 billion credit agreement of March 31, 2006 by US$ 150 million each and for a temporary reduction of the Fresenius Medical Care accounts receivable securitization program. The financial cushion provided by the receivables program has been used to redeem the subordinated trust preferred securities with a coupon of $7^7/_8$% due in February 2008. At Fresenius Group further refinancing on a big scale is only due from 2011 on.

Fresenius SE has a commercial paper program under which up to € 250 million in short-term notes can be issued. No commercial papers were outstanding as of December 31, 2007 and as of December 31, 2006.

The Fresenius Group has drawn about € 2.7 billion of bilateral and syndicated credit lines. In addition, the Group had more than € 1.5 billion in unused credit lines as of December 31, 2007 (including committed credit lines of € 1.1 billion) at its disposal. These credit facilities are generally used for general corporate purposes and are – except for the Fresenius Medical Care credit agreement – usually unsecured.

As of December 31, 2007, both Fresenius SE and Fresenius Medical Care AG & Co. KGaA, including all subsidiaries, complied with the covenants under all credit agreements.

Effect of off-balance-sheet financing instruments on our financial position and assets and liabilities

Fresenius is not involved in any off-balance-sheet transactions that could have or will have a significant impact on its financial position, expenses or earnings, results of operations, liquidity, investments, assets, or capitalization.

Liquidity analysis

In 2007, key sources of liquidity were operating cash flows and short-, medium-, and long-term debt. Cash flow from operations is influenced by the profitability of Fresenius' business and by working capital, especially accounts receivable. Cash flow can be generated from short-term borrowings through the sale of receivables under the Fresenius Medical Care accounts receivable securitization program, by using the commercial paper program and by drawing on bilateral bank credit agreements. Medium and long-term funding is provided by the revolving credit facilities of Fresenius Medical Care and Fresenius SE, and by senior notes as well as by various other financing instruments.

Fresenius believes that existing credit facilities, as well as the operating cash flows and additional sources of short-term funding, are sufficient to meet the Company's foreseeable liquidity needs.

FINANCIAL POSITION – 5-YEARS OVERVIEW*

in million €	**2007**	2006	2005	2004	2003
Operating Cash flow	**1,303**	1,058	784	860	776
in % of sales	**11.4**	9.8	9.9	11.8	11.0
Investments in property, plan and equipment, net	**673**	577	335	297	322
Cash flow before acquisitions and dividends	**630**	481	449	563	454
in % of sales	**5.5**	4.5	5.7	7.7	6.4

* from 2004 onwards IFRS; 2003 US GAAP

Management Report

Dividend

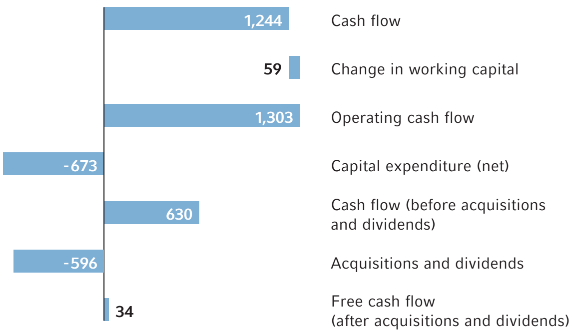
The Management and Supervisory Boards will propose a dividend increase to the Annual General Meeting. For 2007, a dividend of € 0.66 per ordinary share and € 0.67 per preference share is proposed. This is an increase of about 15 %. The total dividend distribution will be € 103.2 million (2006: € 88.8 million).

Cash flow analysis

The Group cash flow statement shows a positive development: Cash flow increased by 18 % to € 1,244 million in 2007 (2006: € 1,050 million). This was mainly due to the excellent growth in earnings. In 2006, cash flow was influenced by tax payments and other payments related to the divestiture of dialysis clinics and the acquisition of Renal Care Group, as well as by a US tax liability for the years 2000 and 2001. The change in working capital was € 59 million (2006: € 8 million).

Operating cash flow was € 1,303 million in 2007 (2006: € 1,058 million), more than sufficient to meet all the financing needs for investing activities, excluding acquisitions. Cash used for capital expenditure was € 711 million, while proceeds from the sale of property, plant, and equipment amounted to € 38 million (2006: € 595 million and € 18 million, respectively). Cash flow before acquisitions and dividends increased by 31 % to € 630 million (2006: € 481 million), sufficient to finance all Group dividends and net acquisitions in 2007. Cash from financing activities (excluding dividend payments) was € 82 million (2006: € 2,931 million). In addition to the acquisition expenditure, Group dividend payments led to a cash outflow of € 205 million in 2007 (2006: € 171 million).

CASH FLOW STATEMENT IN MILLION €



CASH FLOW STATEMENT (SUMMARY)

in million €	2007	2006
Group net income before minority interest	810	635
Depreciation and amortization	427	406
Change in pension provisions	7	9
Cash flow	**1,244**	1,050
Change in working capital	59	8
Operating cash flow	**1,303**	1,058
Property, plant and equipment	-711	-595
Proceeds from the sale of property, plant and equipment	38	18
Cash flow before acquisitions and dividends	**630**	481
Cash used for acquisitions/proceeds from disposals	-391	-3,219
Dividends	-205	-171
Cash flow after acquisitions and dividends	**34**	-2,909
Cash provided by/used for financing activities (without dividends paid)	82	2,931
Effect of exchange rate changes on cash and cash equivalents	-16	-13
Change in cash and cash equivalents	**100**	9

The detailed cash flow statement is shown in the consolidated financial statements.

The Fresenius SE dividend accounted for € 89 million (2006: € 76 million). Cash and cash equivalents amounted to € 361 million as of December 31, 2007 (December 31, 2006: € 261 million).

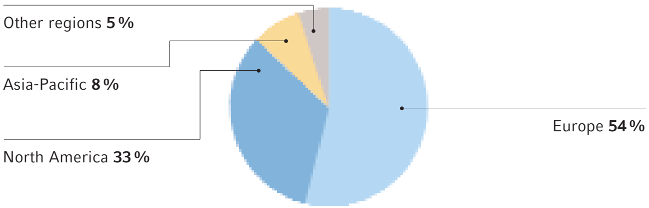
Investments and acquisitions

The Fresenius Group invested € 1,325 million in 2007 (2006: € 4,320 million). Investment in property, plant and equipment, and in intangible assets was € 712 million (2006: € 606 million). This was well above the level of depreciation of € 427 million, constituting the basis for preserving the Company's value over the long term and for expansion. Of the total investment volume in 2007, about 53 % was spent on maintenance investments and about 47 % on expansion investments. € 613 million was invested in acquisitions (2006: € 3,714 million, mainly for the acquisition of Renal Care Group). Of the total investment volume, 54 % was invested in property, plant and equipment, and in intangible assets. 46 % was spent on acquisitions.

The table shows the distribution of investments for each business segment. The chart shows the regional breakdown.

The cash outflow for acquisitions related mainly to the expansion of our global dialysis care business and to renal pharmaceuticals at Fresenius Medical Care. At Fresenius Kabi, acquisitions were made both to increase its international presence and to extend the market position and product portfolio. At Fresenius Helios, the expenditure was primarily for the acquisition of hospitals.

INVESTMENTS BY REGION



2007: € 1,325 million

The main investments in property, plant and equipment, and in intangible assets were as follows:

- Start-up of new dialysis clinics, primarily in the United States, and expansion and modernization of existing clinics
- Expansion and optimization of production sites at Fresenius Medical Care and Fresenius Kabi
- Hospital modernization at Fresenius Helios. The largest single investment was the construction of the new clinic in Berlin-Buch which was finalized in 2007.

Investments in property, plant and equipment of € 89 million will be made in 2008 to continue with the major investment projects already underway on the reporting date. These are chiefly investment obligations for hospitals at Fresenius Helios as well as investments to expand and optimize production plants. These projects will be financed from operating cash flow.

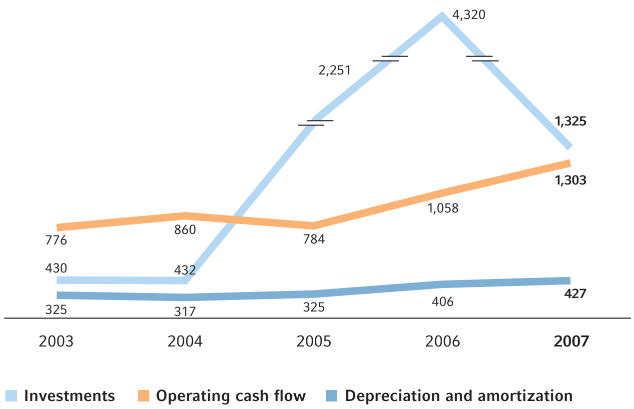
INVESTMENTS BY BUSINESS SEGMENT*

in million €	2007	2006	Thereof property, plant and equipment and intangible assets	Thereof acquisitions	Change	% of total
Fresenius Medical Care	**680**	3,933	423	257	-83 %	52 %
Fresenius Kabi	**294**	127	116	178	131 %	23 %
Fresenius ProServe	**328**	245	153	175	34 %	25 %
- thereof Fresenius Helios	**323**	214	149	174	51 %	–
- thereof Fresenius Vamed	**10**	5	4	6	100 %	–
Corporate/Other	**16**	9	13	3	78 %	1%
Reconcilitation IFRS	**7**	6	7	0	–	–
Total	**1,325**	4,320	712	613	-69 %	100 %

* All business segments according to US GAAP

Management Report

INVESTMENTS, OPERATING CASH FLOW, DEPRECIATION AND AMORTIZATION – 5-YEARS OVERVIEW IN MILLION €*



* as from 2004 onwards IFRS; 2003 US GAAP

ASSETS AND LIABILITIES

Asset and liability structure

The total assets of the Group rose by € 303 million (2 %) to € 15,327 million (December 31, 2006: € 15,024 million). In constant currency, this was an increase of 8 %. Of this growth, 4 % is attributable to the acquisitions in 2007. The expansion of existing business activities accounted for 4 % of the increase in total assets. Inflation had no significant impact on the assets of Fresenius in 2007.

Non-current assets were € 11,321 million (2006: € 11,176 million). Based on the exchange rates as of December 31, 2006, this was an increase of 8 %, and was driven mainly by additions to property, plant, and equipment. Goodwill from acquisitions was € 487 million as of December 31, 2007.

Current assets rose by 4 % to € 4,006 million (2006: € 3,848 million). In constant currency, this is an increase of 8 %. Within current assets, trade accounts receivable rose by 3 % to € 2,159 million, primarily due to business expansion (2006: € 2,088 million). Adjusted for currency effects, receivables grew by 8 %. This increase was well below the currency-adjusted growth of 10 % in Group sales. Benefits resulted from a sustainable receivables management: Average days sales outstanding were 71 days (2006: 71 days). Inventories rose by 15 % to € 875 million (2006: € 761 million). The scope of inventory was 42 days in 2007 (2006: 38 days). This was affected by a build-up of inventories at Fresenius Kabi, mainly associated with the relocation of production and the accumulation of sufficient buffer stocks to guarantee continuing supplies. The ratio of inventories to total assets increased slightly to 5.7 % as of December 31, 2007 (December 31, 2006: 5.1 %).

Shareholders' equity rose by 5 %, or € 301 million, to € 6,099 million (2006: € 5,798 million). Adjusted for currency effects, this is an increase of 12 %. Group net income increased Groups' equity by € 422 million. The equity ratio was 39.8 % as of December 31, 2007 (December 31, 2006: 38.6 %).

The liabilities and equity side of the balance sheet shows a very solid financing structure. Shareholders' equity covers 54 % of non-current assets (2006: 52 %). Shareholders' equity and long-term liabilities cover all non-current assets and nearly all inventories.

ASSETS AND LIABILITIES – 5-YEARS OVERVIEW*

in million €	**2007**	2006	2005	2004	2003
Total assets	**15,327**	15,024	11,602	8,200	8,347
Shareholders' equity	**6,099**	5,798	5,204	3,383	3,214
As % of total assets	**40**	39	45	41	39
Shareholders' equity/non-current assets (%)	**54**	52	63	60	57
Debt	**5,704**	5,879	3,502	2,735	3,023
As % of total assets	**37**	39	30	33	36
Gearing (%)	**88**	98	62	77	90

* as from 2004 onwards IFRS; 2003 US GAAP

Long-term liabilities were € 5,745 million as of December 31, 2007, a decrease of € 432 million or 7 % compared with the previous year's figure of € 6,177 million (in constant currency: 2 %). Short-term liabilities were € 3,483 million, an increase of 14 % versus the previous year's figure of € 3,049 million (in constant currency 20 %).

The Group has no significant accruals. The largest single accrual is to cover the settlement of fraudulent conveyance claims and all other legal matters relating to the National Medical Care transaction in 1996 that resulted from the bankruptcy of W.R. Grace. This accrual amounts to US$ 115 million (€ 78 million). Please see page 120 of the Notes for details.

Group debt was € 5,704 million, which was 3 % lower than the previous year's figure (2006: € 5,879 million) – in constant currency: € 6,047 million. Their relative weight in the balance sheet decreased to 37.2 % (2006: 39.1 %). Approximately 53 % of the Group's financial liabilities is in US dollars. Liabilities due in less than one year were € 932 million (€ 596 million), while liabilities with a remaining tenor of one to five years and over five years were € 4,767 million (2006: € 5,276 million).

The net debt to equity ratio (gearing) has fallen to 87.6 % (2006: 97.0 %). The return on equity after taxes reached 12.3 % (2006: 10.3 %). The return on total assets after taxes and before minority interest was 5.3 % in 2007 (2006: 4.3 %).

The table below shows other key asset and capital ratios:

	Dec 31, 2007	Dec 31, 2006
Debt/EBITDA	**2.8**	3.1
Net debt/EBITDA	**2.6**	3.0
EBITDA/interest ratio	**5.6**	4.6

Currency and interest risk management

The nominal value of all foreign currency hedging contracts was € 739 million as of December 31, 2007; these contracts had a market value of € 14 million. The nominal value of interest rate hedging contracts was € 2,880 million; these contracts had a market value of € -30 million. Please see the Risk Report on page 36 and the Notes on pages 125 to 129 for further details.

NON-FINANCIAL PERFORMANCE INDICATORS AND OTHER SUCCESS FACTORS

EMPLOYEES

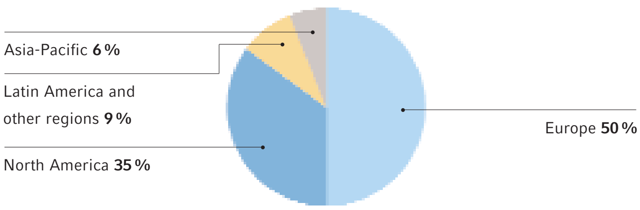
The Fresenius Group had 114,181 employees worldwide at the end of 2007 (December 31, 2006: 104,872), an increase of 9,309 or 9 %. This is mainly due to acquisitions.

The number of employees in the business segments were as follows:

Number of employees	Dec 31, 2007	Dec 31, 2006	Change
Fresenius Medical Care	**64,662**	59,996	8 %
Fresenius Kabi	**16,964**	15,591	9 %
Fresenius ProServe	**31,815**	28,615	11 %
- thereof Fresenius Helios	**30,043**	26,368	14 %
- thereof Fresenius Vamed	**1,767**	1,768	0 %
Corporate/Other	**740**	670	10 %
Total	**114,181**	104,872	9 %

The chart shows the distribution of our employees by region. These percentages roughly correspond to the sales contributions of the respective continents. With an increase of 39 %, the number of employees has risen fastest in the Asia-Pacific region, reflecting our fast-growing business in this region, where currency-adjusted sales growth was 20 %. In addition, acquisitions had an effect. 35,789 people are employed in Germany (2006: 31,955). The increase in Germany was mainly at Fresenius Helios as a result of the hospitals acquired.

EMPLOYEES BY REGION



2007: 114,181

Personnel expenses for the Fresenius Group was € 4,044 million in 2007 (2006: € 3,810 million). Personnel expenses per employee was € 37.4 thousand (2006: € 38.2 thousand).

There were no significant changes to compensation or employment agreements in 2007.

PROCUREMENT

Efficient management of the value chain is important for Group profitability. Global procurement management, which assures the availability of goods and services as well as the consistent quality of the raw materials used in production, is a key element. In an environment characterized by ongoing cost-containment pressure from health insurers as well as price pressure, security of supply and quality play a crucial role. For this reason we are constantly striving to optimize our purchasing processes, to tap new procurement sources, and to achieve the best possible pricing structures while remaining flexibility and maintaining our strict quality and safety standards.

Within the Fresenius Group global procurement is coordinated centrally by competence teams, enabling us to bundle similar requirements and negotiate global framework agreements. These central coordinating offices organize purchasing for the production sites and arrange comprehensive quality and safety checks of purchased materials and goods. Current market and price developments are analyzed on an ongoing basis. In 2007, the cost of raw materials and supplies and purchased components and services was € 3,773 million (2006: € 3,709 million).

in million €	2007	2006
Cost of raw materials, supplies and purchased components	3,266	3,250
Depreciation of raw materials, supplies and purchased components	4	3
Reversals of write downs of raw materials, supplies and purchased components	–	-3
Cost of purchased components and services	503	459
Total	3,773	3,709

Fresenius Medical Care

In 2007, Fresenius Medical Care introduced standard procurement guidelines for Europe. Their aim is to further harmonize and increase the efficiency of the procurement processes.

As expected, the costs for oil and other raw materials rose further in 2007. In the United States alone, the costs for gasoline and diesel have more than doubled compared to the levels in 2004. Cost savings have been achieved through continuous improvements in distribution and warehouse logistics. In addition, a new management system was introduced in the United States in 2007 which analyzes and coordinates all the logistics operations. However, these measures were not sufficient to offset the high fuel costs.

No savings were achieved in 2007 in our sourcing of plastics – plastic granulate is used in the production of dialyzers – resulting in slightly higher material costs than in 2006 despite larger volumes and bundling effects.

Fresenius Kabi

At Fresenius Kabi sharply increased raw material prices were also a central focus of strategic purchasing negotiations in 2007. Fresenius Kabi had anticipated the price increases and extended the global bundling of requirements in coordination with other Fresenius companies. This strategy helped optimize the supplier portfolio and further standardize product specifications. Long-range sourcing strategies were also formulated with a view to improving Fresenius Kabi's purchasing position in relevant markets. The strengthened demand power again led to good negotiating outcomes in individual areas in 2007 despite the difficult environment. Procurement logistics are to be further improved long-term through the successive introduction of online procurement processes (e-purchasing).

The rise in raw materials prices of agricultural origin witnessed in 2006 continued in 2007. This applied especially to corn and milk, which are used as a basic material for various processed products used in infusion therapies and enteral nutrition. For both materials there was increased global demand, while supply was unchanged or even lower in some cases.

The prices of energy and oil-based products as well as all products based on energy-intensive production processes, such as glass for packaging or aluminum for fastenings, were increased in 2007. The multiyear agreement concluded at the end of 2003 for cardboard boxes was not able to compensate for this market trend. In 2006, we had to accept moderate price rises for cardboard boxes; in 2007, prices developed in line with the market. However, the bundling of requirements and strategic sourcing of active substances used in our drugs produced good results in 2007.

Further regional synergy projects within the Fresenius network were initiated in 2007. In Germany, for instance, opportunities for cutting gas and electricity costs are currently under consideration and are being successively implemented.

Fresenius Helios

At HELIOS, high medical standards go hand in hand with an efficient, economically sound management of available resources. Its procurement management system combines the know-how of its doctors and nurses with the commercial competence gained in other areas from the various clinics and disciplines. This know-how and our standards of medical quality are channeled into all procurement decisions to the benefit of the patient. Today, 85 % of the medical supplies are standardized. A system of 280 product groups promotes transparency, planning efficiency, and competition. The electronic configuration of all purchasing processes (e-procurement) – from ordering to billing – results in even greater efficiency and transparency. The HELIOS clinic in Erfurt, for example, a maximum care clinic with over 1,200 beds, already conducts 75 % of its ordering in this way.

In 2007, HELIOS equipped all trauma surgery departments with fixed-angle-implants and implemented a company-wide concept for chronic wound management. Group standards were defined for surgical drapes on the basis of routine treatment data, the costs were calculated, and a budget drawn up. The surgical drapes include drapes while the patient is undergoing surgery, drapes for the interior of the operating rooms, and surgical gowns for the surgeons and the team. In 2006, the HELIOS clinics were purchasing 318 products from six suppliers. Today, 26 clinics already procure 54 products from one supplier. Product standards were also defined for surgery departments based on the various procedures. Only 21 product standards now cover 95 % of all surgeries at HELIOS.

The increase in value-added tax to 19 % had an appreciable impact on costs in 2007. The three percentage point increase impacted fully on expenses, with no compensation on the revenues side for the increase in VAT. It was, however, offset by cost savings through optimized product group management and the systematic bundling of volumes within the HELIOS Group.

QUALITY MANAGEMENT

Our ISO 9001:2000-based quality management has the following three objectives:

- to identify value-enhancing processes oriented to the needs of our customers and to efficiency,
- to monitor and steer these processes on the basis of performance indicators, and
- to improve procedures.

These objectives cover the quality of our products and all services and therapies that we provide. Our quality management system integrates all product groups, such as drugs, medical devices, and nutrition, as well as our clinics. The methodology is regularly evaluated through internal audits and external certification bodies.

Our products are already closely controlled at the development stage. Our drugs are subject to regulatory approval, so appropriate documentation has to be prepared and submitted in accordance with national and international regulations. Medical devices undergo a conformity assessment procedure that documents compliance with the appropriate norms. In enteral nutrition, we already follow the Hazard Analysis Critical Control Point (HACCP) principle during the development process.

We have established quality assurance systems in all our production facilities. In addition to the controlled use of materials, validated production procedures as well as ambience and in-process controls, each batch produced also undergoes final controls and a formal release procedure. Our production facilities are regularly inspected by regulatory authorities or other independent institutions. All audits and inspections led to the renewal of the relevant manufacturing authorization or certification.

Sales and marketing are also an integral part of the quality management system. For example, at any given time we are able to trace which batch was supplied to which customer.

In recent years, Fresenius Helios has initiated and further developed a performance indicator system to evaluate the quality of medical results in hospitals. The system is acknowledged as a highly innovative procedure within the hospital market, although it is not based on ISO certification. The system is also used as quality standard in more than 200 German hospitals outside HELIOS Group. Furthermore, in 2008 the Swiss Federal Office of Public Health (Bundesamt für Gesundheit) started a pilot project for the survey and publication of quality indicators in the hospital market, based on the HELIOS quality management system.

Fresenius Medical Care

Fresenius Medical Care's Integrated Management System (IMS) takes account not only of ISO Standard 9001:2000 but also the special standard for medical products ISO 13485:2003. IMS was already introduced at all production facilities in Europe in 2006. The production sites in the United States and in Mexico are also certified to ISO 13485:2003. In 2007, IMS was introduced at another approximately 40 dialysis clinics. Over 70 % of the Fresenius Medical Care clinics in Europe are now certified, compared to about 65 % in 2006. To proceed the large number of audits in future, about 20 additional employees underwent quality management training in 2007, qualifying them to carry out audits in accordance with IMS standards (2006: 50 employees). In each of the countries, Fresenius Medical Care paid special attention to integrating senior nursing staff into the audit process that also checks hygiene standards at our dialysis clinics. The concept of involving experts in the audit process was therefore systematically continued.

To assess quality in dialysis care, we use the generally accepted quality parameters customary in dialysis, such as the hemoglobin values. Hemoglobin mainly serves to transport oxygen from the respiratory organs to the body tissues that use oxygen. Our patients should have a hemoglobin level of at least 11 grams per deciliter of blood. The average hemoglobin level for healthy people is slightly above that. Other indicators we use to assess treatment quality include the phosphate level and the so-called Kt/V value, which measures the effectiveness of the dialysis treatment by calculating the filtration rates for certain toxic molecules in relation to the length of treatment. Other quality indicators are albumin, which gives an idea of the patient's general nutritional condition, and the number of days which dialysis patients have to spend in the hospital. Measured on the basis of the above parameters, the quality of dialysis treatment at Fresenius Medical Care was further improved in 2007.

Fresenius Kabi

Quality management at Fresenius Kabi is subject to a great many national and international regulations such as Good Manufacturing Practice (GMP) and ISO Standard 13485:2003 as well as regulatory, product-specific requirements. All of these considerations have been integrated into a quality management system conforming to ISO Standard 9001:2000. Quality management at our production sites, in the sales organization, and at a cross-functional level is reviewed regularly by national and international regulatory authorities and by customers. The high standards and functionality of the systems were again confirmed.

Various harmonization projects, such as the harmonization of analytical methods and the regulatory approval documentation, were continued in 2007. International working groups pursued these projects with the aim of obtaining regulatory approvals faster and speeding up the relocation of the production of individual products, for example after an acquisition.

Filaxis, based in Buenos Aires, Argentina, which was acquired as of April 30, 2007, was integrated successively into the quality management system and due for completion at the beginning of 2008. With this acquisition, we have widened our manufacturing expertise to include generic chemotherapy drugs. Since chemotherapy drugs have to be handled with great care, employee protection will therefore play a greater role in our quality management system within this product group.

In addition, a pre-approval inspection of our production facility in Halden, Norway, by the US Food and Drug Administration (FDA) for an additional product was successfully completed. The FDA inspects whether the production plant and processes for a single product conforms with US regulations. Following the pre-approval inspection and after having received drug approval it is allowed to export the respective drug to the United States. The plant in Graz, Austria, which as the center of competence for aseptic manufacturing processes specializes in the production of parenteral nutrition and intravenously administered drugs, is FDA approved. The plant's GMP standard is of the highest international level as demanded for instance by U.S., E.U. and WHO GMP. The plant is ISO 9001:2000 and ISO 13485:2003 certified.

The roll-out of ISO-9001 certification to further Fresenius Kabi locations was continued. After all the European production and sales sites were integrated in the external certification to ISO 9001:2000 in 2006, the focus in 2007 was on the production facilities outside Europe.

Fresenius Helios

The unique quality management system at Fresenius Helios that was developed in-house is devoted to a continuous improvement in patient care. About 700 indicators cover all the main diseases so that the number of treatments, e.g. surgeries, performed and, where possible the quality of the outcomes, can be recorded. On the basis of over 142 indicators, the 30 most important diseases and surgeries are regularly published externally for the HELIOS Group in its own annual medical report and for the individual clinics in the respective hospital guidebooks. These publications assure an exemplary transparency of HELIOS' performance externally. Demanding group targets were defined for 33 indicators. In these areas

HELIOS Kliniken aims to be at least as good as the German average. Where benchmark data are available, HELIOS expects the clinics to match best-in-class international standards in surgical medicine. The Group met or significantly exceeded the targets for 25 of these indicators (clinics as of December 1, 2007). Mortality rates in the case of major diseases such as heart attack, heart failure, stroke, and pneumonia, and of many major surgeries Group-wide were well below the German average, by as much as 23 % in some cases. For instance, in the treatment of fractures of the neck of the femur, often caused by falls in elderly persons, the mortality rate was 5 % below the German average. Where the targets were not achieved, the deviation from the German average was so small that it is statistically not significant. The medical teams at HELIOS are also pursuing additional goals relating to care in the various specialist areas.

Fresenius Vamed

In the planning and construction of hospitals, Fresenius Vamed sets high quality standards in the flexible design of parameters across processes and structures. These parameters include process optimization (covering, for example, ambulance centers, admission and discharge centers, interdisciplinary emergency centers, interdisciplinary outpatient clinics), differentiation according to modular care levels (from basic to intensive care), and the flexible use of buildings and wards in response to shifts in demand – always allowing for the given reimbursement systems and technological developments. VAMED has an internationally experienced team of experts who assure the quality of the structural and process design even when a project is at the concept stage and then when services are performed. Internally, the processes are designed for efficiency and sustainability on the basis of interdisciplinary quality standards. These standards are mostly based on ISO Standards 9001:2000 and ISO 13485:2003, as well as the standards of the European Foundation for Quality Management (EFQM).

SALES, MARKETING AND LOGISTICS

Long-term, mutually trusting cooperation with our customers is an essential basis for sustainable growth. We strive to guarantee top quality and top service to our customers, together with reliable logistics and product availability. Thanks to its broad product portfolio and long experience, Fresenius has been able to build and maintain close relationships with its customers worldwide. Close cooperation between Sales and Research & Development enables the Company to integrate concepts and ideas generated by the sales force with regard to the development of products. Fresenius has its own sales organizations with trained sales personnel. The sales teams coordinate direct sales promotion measures, including visits to doctors, medical specialists, hospitals, and special clinics. The Company also employs external distributors in countries where we do not have our own sales force.

Fresenius' products are shipped by the production plants to central warehouses, mostly located not far from the production sites. These central warehouses dispatch the products to the regional warehouses, which then distribute them to the clinics and other customers, or directly to a patient's home. The business segments offer after sales services, training in the local language, technical support, servicing and maintenance, and warranty arrangements in every country in which Fresenius sells its products. Product training is also provided at the Company's production sites. Regional service centers are operated that are responsible for day-to-day international service support.

The business segments have the following customer structure: Dialysis clinics and hospitals are Fresenius Medical Care's main customers for its products business. In dialysis care, approximately 36 % of Fresenius Medical Care's revenues are derived from the U.S. government's Medicare/ Medicaid programs, about 64 % from private and other health care payors and hospitals.

Fresenius Kabi has a broadly diversified customer base. This includes hospitals, wholesalers, purchasing associations, medical and similar institutions, hospital operators, and home care patients. There is no significant dependence on one source of revenue.

The customers of Fresenius Helios include social security institutions, health insurers, and private patients.

The customers of Fresenius Vamed are public and private hospitals and other health care facilities.

OVERALL ASSESSMENT OF THE BUSINESS SITUATION

At the time this Group Management Report was prepared, the Management Board continued to assess the development of the Fresenius Group as positive. Our products and services are in strong demand around the world. Operating performance in the first weeks of 2008 has been fully in line with our expectations, with further increases in sales and earnings.

OPPORTUNITIES AND RISK REPORT

Through the expansion, especially in international markets, and the complexity and dynamics of our business, the Fresenius Group is naturally exposed to a number of risks. These risks are directly related to business activity and have to be accommodated if opportunities are to be exploited.

As a provider of often life-saving products and services for the severely and chronically ill, we are relatively independent of economic cycles. Our experience in the development and manufacture of products, as well as in our markets, serves as a solid basis for a reliable assessment of risks. At the same time, we will continue to take advantage of the wide-ranging opportunities for sustainable growth and expansion that the health care market offers to the Fresenius Group.

OPPORTUNITIES MANAGEMENT

Managing opportunities is an ongoing, integral part of corporate activity aimed at securing the Company's long-term success. In this way we can tap new potentials and consolidate and improve on what we have already achieved. Opportunities management is closely linked to the Fresenius Group's long-term strategy and medium-term planning. The Group's decentralized and regional organizational and management structure enables the early identification and analysis of trends and requirements, and the opportunities in our often fragmented markets; and we can respond to them flexibly and in line with local market needs. Furthermore, we maintain regular contact and dialogue with research groups and institutions, and keep a close watch on markets and competitors in order to identify opportunities. Within the Group, opportunities and synergies can be exploited through continuous communication involving the exchange of information and know-how between the various business segments. Anticipated future opportunities for the Fresenius Group are discussed in the Outlook starting on page 38.

RISK MANAGEMENT

Like opportunities management, risk management is a continuous process. Identifying, analyzing and controlling risks are key tools of solid Group management. The Fresenius risk management system is closely linked to the corporate strategy and is based on its guidelines. Through the combination of our internal monitoring system, our risk controlling procedures, and an early-warning system derived from our risk management system, we can identify and counteract at an early stage those developments that might threaten the companies' future. Responsibilities for the processes and for monitoring risks in the individual business segments have been assigned as follows:

- Risk situations are evaluated regularly using standardized processes and compared with given requirements. Responses can be initiated at an early stage should negative developments emerge.
- The managers responsible are required to report without delay any relevant changes in the risk profile to the Management Board.
- Markets are kept under constant observation and close contacts maintained with customers, suppliers and institutions. These practices allow us to identify and react to changes in our business environment swiftly.

Risk management measures are supported both at Group level and in the individual business segments by our risk controlling measures as well as our management information system. Based on detailed monthly and quarterly financial reports, deviations in earnings and in assets and liabilities from budget figures can be identified and analyzed. In addition to risk management, a monitoring system has been established comprising organizational processes and measures as well as internal controls and audits. Our risk management system is regularly evaluated and, if necessary, adjusted to allow prompt reaction to changes in the markets. This system has proved effective to date.

The international operations of the Fresenius Group expose us to a variety of currency risks. In addition, the financing of the business exposes us to certain interest rate risks. We use derivative financial instruments as part of our risk management to avoid possible negative impacts of these risks. However, we limit ourselves to non-exchange traded, marketable instruments, used exclusively to hedge our operations and not for trading or speculative purposes.

The Fresenius Group's currency and interest rate risk management activities are based on a policy approved by the Management Board that defines the targets, the organization and the handling of the risk management processes. In particular, the guidelines assign responsibilities for risk determination, the execution of hedging transactions, and for the regular reporting of risk management activities. These responsibilities are coordinated with the management structures in the other business areas of the Group. Thus, hedging transactions using derivatives are carried out solely by the Corporate Treasury Department of the Fresenius Group, apart from a few exceptions in order to adhere to foreign currency regulations, and are subject to stringent internal controls. This policy ensures that the Management Board is fully informed of all significant risks and current hedging activities. The functionality and effectiveness of the risk management system is reviewed as part of the audit of the annual financial statements. Conclusions arising from the audit are taken into account in the ongoing refinement of our risk management system.

RISK AREAS

The main risk areas for the operations of the Fresenius Group are as follows:

- General economic risks

  From today's point of view, the development of the global economy presents no significant risk to the Fresenius Group. In 2008, on the whole we expect overall economic growth to continue. For the Fresenius Group, we therefore expect continued strong demand for our life-saving and life-sustaining products and services.

- Risks in the general operating framework

  The risk situation for each business segment depends on the development of its markets. Therefore, political, legal and financial conditions are monitored and evaluated carefully. In addition, the growing internationalization of our markets requires us to keep abreast of country-specific risks.

▶ Risks in the health care sector

Risks related to changes in the health care market are of major importance to the Fresenius Group. The main risks are the development of new products and therapies by competitors, the financing of health care systems and reimbursement in the health care sector. The latter applies especially in the United States, where a large portion of our sales are generated, and where e.g. changes in the reimbursement system could have an impact on our business. The same is true for the hospital market in Germany. In 2008, hospitals will again have to contribute a lump sum toward improving the finances of the German public health insurance system. The introduction of the DRG system (Diagnosis Related Groups) is intended to increase the efficiency of hospitals while reducing expenditure in the health care system. The Company constantly monitors further legislative developments of the DRG system. Discussions about an end to dual financing in the hospital sector are also being followed. Patients are largely assigned to hospitals by the public health and pension insurers. It is therefore especially important for the Company that the contracts between its hospitals and the insurers and health care institutions are maintained. For this reason, we not only continually monitor legislative changes but proactively work together with governmental health care institutions. Generally, the aim is to counter possible regulatory risks through cost reductions and enhanced performance. In addition, our close ties with the medical and scientific communities allow us to identify and support relevant technological innovations and keep abreast of current developments in alternative treatment methods. This enables us to evaluate and adjust our corporate strategy if necessary.

▶ Operating risks

▶ Production, products and services

We confront potential risks in production and services with the following measures: Compliance with product and manufacturing regulations is ensured by quality management systems in accordance with the internationally recognized quality standards ISO 9001 and ISO 9002 and the corresponding internal standards as defined, for example, in our quality and work procedure manuals. Regular audits are carried out by quality management officers at the Group's production sites and dialysis clinics.

These audits test compliance with all regulations in all areas – from management and administration to production and clinical services and patient satisfaction. Our production facilities comply with the international "Good Manufacturing Practice" (GMP) guidelines and other internationally and nationally recognized standards. In addition, the quality management and compliance programs document and insure that business is carried out in line with high ethical standards and in accordance with official procedures. Internal and external audits review the legality and efficiency of our operations and the effectiveness of our internal monitoring systems. Potential risks, such as those arising from the start-up of a new production site or the introduction of new technologies, are countered through careful planning, regular analysis and continual progress reviews.

Performing medical procedures on patients in our hospitals and post acute care clinics presents inherent risks; at the same time operational risks, for example the need for strict hygiene and sterile conditions, can arise. We counteract these risks with strict operating procedures, continuous personnel training and patient-oriented working methods. Risks can also arise from increasing pressure on our product prices and from price increases on the procurement side. For instance, changes in the

United States in the regulations concerning the reimbursement for erythropoietin (EPO), or a change in the dosage, could have a significant impact on the revenues and earnings of Fresenius. EPO is a hormone used in dialysis that stimulates the production of red blood cells. An interruption in supply or worsening procurement conditions for EPO could also reduce revenues and significantly increase Fresenius' costs. To counter this risk, Fresenius Medical Care has entered into an agreement with Amgen for the supply of EPO in the United States and Puerto Rico. Amgen is the sole supplier of EPO in the United States. The agreement runs until December 31, 2011. Reimbursement and revenues from the administration of EPO accounted for approximately 8 % of total sales of the Fresenius Group in 2007.

On the procurement side, we counter risks, which mainly involve possible price increases, by appropriately selecting and working together with our suppliers through long-term framework agreements in certain purchasing segments and by bundling volumes within the Group.

We counter the risks associated with the engineering and hospital services business through professional project management and control, and with a proven system tailored to each business activity for identifying, evaluating and minimizing these risks. Th s system consists of organizational measures (such as standards for pricing-in risks when preparing quotations, risk assessment before accepting orders, regular project controlling and continual risk assessment updates), quality assurance measures and financial measures (such as checking creditworthiness, securing payment in advance through deposits, letters of credit and secured credits).

- Research and development
  The development of new products and therapies always carries the risk that the development target is not achieved. Regulatory approval of new products requires comprehensive, cost-intensive preclinical and clinical studies. The Fresenius Group spreads its risk widely by conducting development activities in various product segments. We also counteract risks from research and development projects by regularly analyzing and assessing development trends and examining the progress of research projects. We also strictly comply with the legal regulations for clinical and chemical-pharmaceutical research and development.

- Risks from the integration of acquisitions
  The integration of acquisitions or potential acquisitions carries risks that can adversely affect assets and liabilities, the financial position and results of operations of Fresenius. Following an acquisition, the infrastructure of the acquired company must be integrated while legal questions and contractual obligations are clarified. Marketing, patient services and logistics must also be unified. Ongoing business processes as well as relationships with customers can be harmed by losing key managers during integration. The integration process may prove to be more difficult and cost-intensive or last longer than expected. Risks can arise from the operations of the newly acquired companies that Fresenius regarded as insignificant or was unaware of. An acquisition may also prove to be less beneficial than initially expected.

- Personnel risks

Risks in personnel marketing are not considered to be significant. Nevertheless, the Group uses comprehensive recruiting and personnel development programs to counteract a possible shortage of skilled personnel. Fresenius counters the general shortage of specialized hospital personnel through targeted personnel marketing measures to recruit a qualified and dedicated workforce, and thus insure the high standards of treatment quality. At the same time, we assist in the training of young people and thereby seek to commit them to the Company. HELIOS, for instance, pays a monthly compensation to medical students during their one-year internship. This practice puts HELIOS at a considerable competitive advantage over other hospital operators in recruiting staff.

- Financial risks

Potential financial risks can arise from exposure to foreign currencies and interest rates. Controlling and limiting these risks is an integral part of our risk management. We also use derivative financial instruments to hedge against interest rate and foreign currency risks.

However, these instruments are used solely for hedging current operations and are not used for trading or speculative purposes. Please see pages 126 to 129 of the Notes for further details.

The Fresenius Group is protected to a large extent against currency and interest rate risks. As of December 31, 2007, 82 % of the Fresenius Group's debt is protected against increases in interest rates either by fixed-rate financing arrangements or by interest rate hedges. Only 18 %, or € 1,051 million, is exposed to an interest rate risk.

A rise of 0.5% in the reference rates relevant for Fresenius would have a less than 1% impact on Group net income. As a globally active company, Fresenius has production facilities in all the main currency areas. Consequently, the exposure to currency risks arising from our business activities does not rise to the same extent as sales.

Potential financial risks that could arise from acquisitions and investments in property, plant and equipment, and in intangible assets are assessed in advance. We perform careful and in-depth reviews of the projects, sometimes with the support of external consultants.

As a globally active company, Fresenius is widely exposed to translation effects due to foreign exchange rate fluctuations. The exchange rate of the US dollar to the euro is of particular importance due to our extensive operations in the United States.

Fresenius' debt could limit its ability to pay dividends or to implement its corporate strategy.

- Government reimbursement payments

Fresenius is subject to comprehensive government regulations in nearly all countries where it is active. This is especially true in the United States and Germany. In addition, Fresenius has to comply with general rules of law, which differ from country to country. There could be far-reaching legal repercussions should Fresenius fail to comply with any of these laws or regulations. A large part of Group revenue derives from government reimbursement programs such as the federal dialysis reimbursement programs in the United States under Medicare and Medicaid. Changes in the law, or changes in the reimbursement method, could affect the amounts of these payments and consequently have a significant adverse impact on the assets and liabilities, financial position and results of operations of the Group.

- Legal risks

Risks that arise from legal issues are continually identified, analyzed and communicated. In 2003, a definitive agreement was signed regarding the settlement of fraudulent conveyance claims and all other legal matters in connection with the National Medical Care transaction in 1996 arising from the bankruptcy of W.R. Grace & Co. Under the settlement agreement, Fresenius Medical Care will pay a total of US$ 115 million to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the court, upon plan confirmation. The settlement agreement has now been approved by the pertinent court. Also, subject to the confirmation of the W.R. Grace & Co. settlement agreement, claims made out of court by certain private U.S. health insurers were also settled by agreement. Consequently, all legal issues resulting from the NMC transaction have been concluded subject to plan confirmation.

In October 2004, Fresenius Medical Care Holdings, Inc. and its subsidiaries, including Renal Care Group (RCG; before RCG was acquired) received subpoenas from the U.S. Department of Justice, Eastern District of New York. The subpoenas require production of a broad range of documents relating to the companies' operations, with specific attention to documents relating to a certain hormone test and vitamin D therapies.

Furthermore, FMCH and its subsidiaries, including RCG (before its acquisition by Fresenius Medical Care) received in April 2005 (RCG in August 2005) a subpoena from the U.S. Department of Justice in St. Louis (Missouri) in connection with civil and criminal investigations. Documentation must be provided on clinical quality programs, business development activities, compensation of clinic managers, contractual relationships with doctors, joint ventures, and anemia treatment therapies, RCG's suppliers, pharmaceutical and other services which RCG has provided for patients, RCG's relations to companies in the pharmaceutical industry and RCG's procurement of dialysis machines from FMCH. The Inspector General of the U.S. Department of Health and the Attorney General for the Eastern District of Texas confirmed their involvement in the review of the anemia management program.

In July 2007, the U.S. Attorney's office filed a civil complaint against RCG and FMCH, in its capacity as RCG's current corporate parent, in the U.S. district court, Eastern District of Missouri. The complaint seeks monetary damages and penalties in respect of the business activities of the RCG Method II supply company in 2005, before RCG was acquired by FMCH.

In August 2007, the Sheet Metal Workers National Pensions Fund filed a complaint in the U.S. district court of California alleging that Amgen, Inc., Fresenius Medical Care, and DaVita, Inc. had marketed Amgen's products Epogen and Aranesp to hemodialysis patients for uses not approved by the FDA and thereby caused a putative class of commercial insurers to pay for unnecessary prescriptions of these products. Motions have been filed to consolidate this case with others against Amgen alone in a single case under the federal rules for multidistrict litigation. Please see pages 122 to 124 of the Notes for further details.

Furthermore, the Fresenius Group is involved in various legal issues resulting from business operations and, although it is not possible to predict the precise outcome of these disputes, none is expected to have a significant adverse impact on the assets and liabilities, financial position and results of operations of the Group.

▶ Other risks

Other risks, such as environmental risks, and risks involving management and control systems or our IT systems, are not considered to be significant. IT risks are countered through security measures such as controls and monitoring. In addition, we counter these risks with constant investment in hardware and software as well as by improving our system know-how.

ASSESSMENT OF OVERALL RISK

The basis for evaluating overall risk is the risk management system that is regularly audited by management. Potential risks for the Group include factors beyond its control, such as the development of national and global economies, which Fresenius constantly monitors. Risks also include factors immediately within its control, such as operating risks, which the Company anticipates and reacts to appropriately, if necessary. Currently, there are no recognizable risks regarding future performance that appear to present a long-term and material threat to the assets and liabilities, financial position and results of operations of the Group. We have created organizational structures that include all the considerations needed to quickly alert us to emerging risk situations.

CORPORATE RATING

Fresenius' credit quality is assessed and regularly reviewed by the two leading rating agencies Moody's and Standard & Poor's. The Standard & Poor's overall rating for Fresenius SE is BB and the Moody's rating is Ba2.

In 2007, Standard & Poor's changed the rating outlook from "negative" to "stable". Moody's revised its outlook from "stable" to "positive". The agencies' ratings for Fresenius are as follows:

RATING OF FRESENIUS SE

	Rating	Outlook
Standard & Poor's	BB	stable
Moody's	Ba2	positive

The rating agencies justify the current ratings and the improved outlook as a result of, among other factors, improved financial ratios and the successful integration of the Renal Care Group and HELIOS Kliniken acquisitions. Further, the rating decisions are based on the expectation that Fresenius can sustain its positive earnings trend and will continue to generate stable cash flows in future.

SUBSEQUENT EVENTS

Fresenius has reorganized its hospital business as of January 1, 2008. The former business segment Fresenius ProServe has been replaced by two new business segments – Fresenius Helios and Fresenius Vamed. As part of the new organizational structure, Dr. Francesco De Meo and Dr. Ernst Wastler joined the Management Board of Fresenius SE as from January 1, 2008. Dr. De Meo is responsible for the Fresenius Helios business segment. Dr. Wastler is in charge of the Fresenius Vamed business segment.

Apart from that, there have been no significant changes in the Fresenius Group's corporate position or operating environment since the beginning of 2008. At present, the Fresenius Group is not planning to carry out any significant changes in its structure, administration, or in the area of personnel. No other events of material importance have occurred following the end of the fiscal year.

OUTLOOK*

This Management Report contains forward-looking statements, including statements on future sales, expenses and investments, as well as potential changes in the health care sector, our competitive environment and our financial situation. These statements were based on the expectations and assessments of the Management Board regarding events that could affect the Company in the future. Such forward-looking statements are, as a matter of course, subject to risks, uncertainties, assumptions and other factors. Consequently, the actual results, including the financial position and profitability of Fresenius, could therefore differ materially – positively or negatively – from those expressly or implicitly assumed or described in these statements. For further information, please see our Risk Report on pages 32 ff.

* According to US GAAP

The Management Board controls the business segments by setting strategic and operative targets and through various financial ratios according to US GAAP. Therefore, in the following outlook all ratios of the business segments and of the Group are according to US GAAP.

GENERAL AND MID-TERM OUTLOOK

The outlook for the Fresenius Group for the coming years continues to be very positive. Excellent growth opportunities for Fresenius are provided above all by:

- The sustained growth of the markets in which we operate: Here, Fresenius sees very good opportunities to profit from the considerable health care needs, primarily in the developing and emerging countries.
- The development of innovative products and therapies: This creates the potential to further expand our market position in the regions. In addition to innovation, best-in-class quality and the reliability of our products and therapies is key to being able to exploit opportunities for expansion.
- The expansion of our regional presence: The fast-growing markets in Asia-Pacific and Latin America especially offer further potential to increase our market shares. Besides strengthening our business regionally through market entries by our own, we plan to roll-out products and therapies from our existing portfolio successively in countries where we do not yet offer a comprehensive range.
- The broadening of our service business: Here, Fresenius Helios has concrete opportunities in the German hospital market to profit from the further privatization of public hospitals. Changes in the law could present new opportunities for instance for Fresenius Medical Care. Changes in the framework conditions for the operation of dialysis clinics for private commercial enterprises in Japan could open up new sales potential for Fresenius Medical Care, since Japan is one of the world's biggest dialysis markets.
- Selective acquisitions: We will continue to seize opportunities to grow via acquisitions that extend our product portfolio and strengthen our regional presence.

We are also exploiting the opportunities to tap the potential in our operations for cost management and efficiency and profitability enhancement measures. These include plans for a further optimized procurement process and cost-efficient production.

Given sustained market growth and a long-term strategy oriented to profitable growth, Fresenius has set itself a mid-term goal under the slogan "15/15". Fresenius aims to reach the following in 2010:

1. Group sales of € 15 billion. Based on the sales of € 11,358 million generated in 2007, this represents a compounded annual growth rate of 10 %. It is to be achieved through strong organic growth flanked by acquisitions.
2. An EBIT margin of 15 %. Earnings are therefore expected to grow at a significantly higher rate than sales.

Acquisitions have led to significant higher Group financial liabilities with a corresponding impact on net interest expense. The aim is therefore to further improve the Group's leverage ratios.

This forecast takes account of all events known at the time the annual financial statements were prepared that could influence our operating performance in 2008 and beyond. Significant risks are discussed in the Risk Report. As in the past, we will do our utmost to achieve and – if possible – exceed our targets.

FUTURE MARKETS

As an international company, we offer our products and services in more than 100 countries. We expect that the consolidation process among competitors in our markets in Europe, Asia-Pacific and Latin America will continue. We therefore assume generally that there will be opportunities for Fresenius to penetrate new markets both by expanding its regional presence and by extending its product portfolio. In the United States, since Fresenius Medical Care and its competitor DaVita already have a share of about two-thirds of the market, acquisitions are likely to be fairly small, potential antitrust restrictions are an additional factor. New markets will open up for Fresenius as it successively rolls out its existing product portfolio in other regions.

ECONOMIC OUTLOOK

The forecasts for 2008 paint a favorable picture for the global economic outlook. Growth is expected to slow but not drastically. This scenario depends on the central banks and the big financial institutions keeping the negative spillover from the financial crisis involving banks' liquidity within limits. There is still the risk that the turbulence on the financial markets will grow again and that the risk premiums in all segments of the credit market will increase more than temporarily. Global GDP growth of 4.6 % is estimated for 2008. Growth will slow most of all in the developed countries. The emerging economies, especially in Asia, will increasingly assume the role of locomotive for the world economy. Commodity prices will remain at a high level in 2008. The US dollar's weakness against the euro is not expected to change significantly.

▶ Europe

Economic growth in the Eurozone will probably slow from 2.6 % to 1.6 % in 2008 as a result of a weaker world economy and a firmer euro. Despite these burdens thanks to an upturn in private consumption growth is unlikely to halt. This growth hinges on a further fall in unemployment, rising incomes and tax cuts, for instance in France. If the euro continues to firm against the US dollar, this outcome would probably be an additional burden for the industry in the Eurozone and especially for Germany with its strong export bias.

In Germany, GDP should grow by 1.7 %, driven mainly by exports and investment. However, private consumption, should pick up again. A positive development in the labor market and pay increases should boost households' real disposable incomes. Since there will not be the negative effect of a VAT increase in 2008, private consumption should be responsible for about half of the economic growth in 2008.

▶ United States

GDP growth in the United States should be around 1.6 % in 2008, which is below the growth of 2.2 % in 2007. Observers expect the property crisis in the United States to continue in 2008. This will affect the property market insofar as there will be a wave of rate adjustments, especially in subprime mortgages. Property prices have already fallen in response to the continued decline in demand for residential properties. Falling property prices will hurt consumption owing to their wealth effect. In this scenario, the Federal Reserve is likely to make further rate cuts.

- Asia

Experts forecast GDP growth of 8.6 % for Asia (excluding Japan). In China, concerns about the economy overheating are gaining ground. It is expected that China's central bank will take further steps to counter this. China's economy could receive a slight dampener as a result of the downturn in the United States, which accounts for about 20 % of China's exports. However, the economy's dynamic will remain strong, with an expected growth rate of 10.4 %. GDP growth in Japan, which has profited less strongly from the global dynamic in recent years, should be modest at an estimated 1.6 % in 2008. Domestic demand is expanding only moderately; export demand continues to be the driver.

- Latin America

Economic expansion in Latin America should continue at a slightly slower pace in 2008, mainly as a result of the slowdown in the US economy and to a lesser extent that in Europe. GDP is therefore likely to grow by 4.4 %. Mexico will be hardest hit because of its strong trade relations with the United States. Mexico's GDP should grow by 3.4 %. Argentina and Brazil are the region's two countries that are the least vulnerable to the risks that could arise from an economic slowdown in the United States and Europe and an easing in commodity prices. Their economies are more highly developed and more diversified, for instance, they are not dependent on just one export commodity. For 2008, GDP growth of 5.1 % is forecast for Argentina and 4.6 % for Brazil.

HEALTH CARE SECTOR AND MARKETS

- The dialysis market

We expect the number of dialysis patients to rise by 5 to 7 % in the coming years, although significant regional differences are anticipated. In the industrialized nations such as the United States, Japan and the countries of Central and Western Europe where people already have broad access to dialysis treatment, we expect below-average patient growth. In many developing countries, however, where the needs of patients with chronic kidney failure are still not met sufficiently, we expect above-average growth rates of up to 10 % in these markets. That more than 80 % of the world's population lives in these growth regions highlights the enormous potential of the dialysis market there.

We expect the number of patients with terminal kidney failure to increase worldwide to approximately 2 million by the year 2010. The global dialysis market will probably grow to US$ 67 billion.

Reimbursement schemes for dialysis treatment vary from country to country. The reimbursement structures may also differ within individual countries. They may depend for instance on regional factors, the method of treatment, regulatory aspects, or the status of the dialysis care provider. The reimbursement of dialysis treatment according to quality-based criteria also remains a central issue. In this reimbursement model, the quality of treatment should increase while the total cost of treating

Source: German Council of Economic Exports Annual Report 2007/2008, bank research a dialysis patient should remain constant. Fresenius Medical Care has been active for many years in numerous countries with a variety of health care systems and reimbursement schemes. Thanks to our international experience we are able to bolster the activities of the national health care systems, to adjust our business to the local environment, and to generate profitable growth. In the United States, our largest market, patients covered by the public health insurers Medicare and Medicaid account for about 53 % of Fresenius Medical Care's dialysis care revenues.

The market for infusion therapies and clinical nutrition

Demographic developments, medical advances and the often still insufficient availability of medical care in developing countries will continue to be the growth drivers in this market.

We expect further cost-containment pressure and health care reforms in Central and Western Europe. Despite these trends, we believe that there will be continued growing demand for innovative and cost-effective therapies and products. We expect growth in the low single digits for the infusion therapy and clinical nutrition market in Central and Western Europe. The market for intravenously administered generic drugs in Europe should see growth rates in the mid single digits. For Eastern Europe we expect market growth rates in the high single digits.

There continues to be high growth potential in Latin America and in Asia-Pacific. The rising demand for primary care in hospitals and thus for high-quality therapies will result in continued strong growth rates in many countries in these regions in the coming years. We expect the markets of Asia-Pacific and Latin America to continue growing at high single to double-digit rates. We also expect a rising demand for medical devices in the coming years.

The German hospital market

Hospitals face further economic pressure in 2008. The German government has increased the hospital budget for 2008 by 0.64 %, while maintaining the 0.5 % contribution hospitals are required to make towards improving the finances of public health insurers. Consequently, there is little scope for absorbing cost increases. According to a recent survey conducted by the German Hospital Institute, 42 % of the clinics expect their situation to deteriorate compared to 2007.

The DRG system has entered the last year of the convergence phase in 2008. As the legal situation stands at present, the convergence phase will be over for the most part as from the beginning of 2009. This means that as from then all hospitals will have to bill on the basis of standardized base rates valid throughout the respective state. The new system introduces more market-driven principles and performance transparency in the area of acute care. It will also encourage further competition since it enables the budgets agreed with the health insurers to be increased if performance is enhanced because additional services will no longer have to be provided at a low marginal revenue rate.

A further reform of hospital financing is currently in preparation for the year 2009. Under discussion is the introduction of so-called selective contracting, i.e. the negotiation of volumes, prices and quality standards for certain services directly with the individual health insurers. At present, the services are negotiated jointly and uniformly with all health insurers. HELIOS Kliniken would be very well positioned should the proposals be implemented.

The rationalization trend in the German hospital market will continue in 2008 and beyond. According to a study by management consultants Ernst & Young, by the year 2020 there will be only 1,500 hospitals operating in Germany. 2.9 beds will be available per 1,000 population, and the average length of stay will fall to 4.0 days (2006: 6.2 beds, 8.5 days).

Private hospital chains and clinic alliances will tend to be able to respond to the pressure to improve efficiency better than public hospitals. They often have more experience in operating commercially and creating efficient structures. They have the potential to secure cost advantages in procurement and generally have more advantageous financing possibilities. Finally, private operators have more experience with the process know-how in acquiring and integrating new facilities and quickly adjusting their cost structures.

Against this background, we expect the concentration and privatization process to accelerate further, especially among public hospitals. Overall, experts expect the market share of private operators in terms of beds to rise from approximately 14 % at present to about 35 to 40 % until 2015. Crucial factors for a clinic's survival will be excellent medical standards, well-trained staff, well-organized processes and a well-structured treatment spectrum with a focus on high-quality, complex medical services.

Difficult pay negotiations are likely again in 2008 in the public sector, i.e. at the level of local government employers (as operators of municipal hospitals) and the German federal states (as operators of university clinics). The trade unions ver.di and Marburger Bund have both announced high pay demands for the professions they represent considering the economic and financing situation of the hospitals. Even a settlement on a much lower basis than the present demands would further accentuate the strained financial situation of many public hospitals. This will lead to further job cuts and privatizations.

GROUP SALES AND GROUP EARNINGS

With its international production and sales platform and its market-oriented products and services, the Fresenius Group is excellently positioned for continued growth in the coming years. The opportunities for profitable growth are indicated by the developments described in the chapter "Health Care Sector and Markets". In 2008, we therefore expect to increase Group sales by 8 to 10 % at 2007 exchange rates.

While our traditional markets in Europe and North America are growing at average low to mid single-digit rates, we see far stronger growth potential in the Asia-Pacific region and in Latin America. Here, the demand for our life-saving and life-sustaining products continues to be very high due to the still limited access to medical care. This will also be reflected in the development of sales: While we expect single-digit rates of growth in our major markets of the United States and Europe, sales in the growth regions should increase at double-digit rates.

We plan to increase Group net income significantly again in 2008. We aim to achieve this through sustained sales growth and ongoing measures to lower costs as a percentage of sales, especially in production. Despite a market environment which continues to be marked by cost-containment and price pressure, we expect to increase net income by 10 to 15 % in constant currency, i.e. more strongly than sales.

SALES AND EARNINGS BY BUSINESS SEGMENT

We expect good improvements in sales and earnings in 2008 in each of our business segments. The table on the following page gives an overview.

The number of dialysis patients worldwide should rise by about 6 % in 2008, leading to a continued growth in demand for dialysis products and a higher number of treatments. In 2008, Fresenius Medical Care expects revenues to grow to more than 10.4 billion in US dollars, its reporting currency.

Source: Krankenhaus-Barometer survey 2007, Ernst & Young survey "Gesundheitsversorgung 2020", bank research

For net income, Fresenius Medical Care forecasts US$ 805 to 825 million.

Fresenius Kabi expects its positive operating performance to continue in 2008. The company estimates sales growth of 12 to 15 % in constant currency. Organic growth is expected to contribute about 7 % to this target. Good growth potential is expected again in the Asia-Pacific region and in Latin America. Based on the positive sales projection, further cost optimizations, especially in production, and an improved product mix, Fresenius Kabi expects to increase earnings significantly. Fresenius Kabi forecasts an EBIT margin of around 16.5 %.
It is anticipated that the recent acquisitions will initially contribute to Fresenius Kabi's EBIT at a margin below par, also due to amortization of intangible assets. Adjusted for the recent acquisitions, Fresenius Kabi's EBIT margin is expected to progress into the range of 16.5 to 17.0 %.

Fresenius Helios expects a continued good performance in the hospital operations business. The company forecasts revenue to grow to more than € 2,050 million in 2008. Revenues will also be influenced to a large extent by the first-time consolidation of the newly acquired clinics, especially the Krefeld Municipal Hospitals. EBIT is expected to increase to € 160 to 170 million in 2008, despite the initially negative contribution of the Krefeld Municipal Hospitals. Growth potential is expected above all from further hospital privatizations in Germany.

Fresenius Vamed expects a good performance in 2008 given the excellent order situation. The company expects to achieve sales growth and increase in EBIT of 5 to 10 %. Fresenius Biotech will continue its clinical study program. We expect that the expenditures for our biotechnology projects will lead to negative EBIT of about € -50 million in 2008.

FINANCING

In 2007, we generated an excellent operating cash flow of € 1,296 million. The key driver was our good earnings performance. The cash flow margin was 11.4 %. We estimate that this margin will be in the range of 10 % in 2008, especially through further earnings improvements.

A key financial target figure for the Fresenius Group is the net debt/EBITDA ratio. As of December 31, 2007, this ratio was 2.6. Our mid-term goal is to reach a ratio in the range of 2.5, primarily through earnings improvements and a continued positive cash flow development. This target is on the assumption that no major acquisition opportunities arise.

Overall, we have a sufficient financial cushion with substantial unused credit lines under syndicated or bilateral credit facilities from banks. As of December 31, 2007, Fresenius Medical Care's receivables securitization program of US$ 650 million were only partially and Fresenius SE's € 250 million commercial paper program was not utilized. Please see page 22 of the Management Report for details.

Our refinancing requirements in 2008 are already fully covered by the capital market transactions carried out in 2007. There are only limited refinancing requirements in 2009 and 2010. These can be met from cash flow and, if necessary, from existing credit facilities.

GROUP FINANCIAL TARGETS

	Targets 2008 (US GAAP)	Fiscal year 2007 (US GAAP)	Fiscal year 2007 (IFRS)
Sales, growth (in constant currency)	8 - 10 %	€ 11,358 million	€ 11,391 million
Net income, growth (in constant currency)	10 - 15 %	€ 410 million	€ 422 million
Capital expenditure	~ € 750 million	€ 705 million	€ 712 million
Dividend	Profit-driven dividend policy	Proposal: ~15 % per ordinary and preference share	

INVESTMENTS

Fresenius plans to invest in further growth and to increase capital expenditure in property, plant and equipment. In 2008, we expect to invest about € 750 million in property, plant and equipment and in intangible assets. This will again be significantly more than the € 705 million invested in 2007. The increase will mainly be in the Fresenius Medical Care business segment. Approximately two-thirds of the capital expenditure budgeted will be invested at Fresenius Medical Care, while Fresenius Kabi and Fresenius Helios will each account for about 15 %. Investments at Fresenius Medical Care will focus on the construction and expansion of dialysis clinics, and on the expansion and maintenance of production plants. Fresenius Kabi will invest in expanding and maintaining production facilities and in introducing new manufacturing technologies. These developments will enable further improvements in production efficiency. At Fresenius Helios we will be investing primarily in modernizing hospitals and in hospital equipment. The regional focus of the investments will be on Europe and North America, which will account for about 45 % and 40 %, respectively. The remainder will be invested in Asia, Latin America, and Africa. About 25 % of the funds will be invested in Germany.

PROCUREMENT

As a result of the sharply increased prices for energy and raw materials, the ongoing optimization of our procurement management, including price and conditions as well as product quality, is a key factor for further earnings growth. We expect the procurement costs for oil-based intermediate products to rise. The prices of other finished goods such as cardboard boxes and packaging materials should remain relatively stable. We will continue bundling our procurement processes on a global, cross-company basis. Procurement alliances across various sectors allow us to increase purchasing volumes and secure better conditions from our suppliers. Individual processes will also be streamlined over the longer term through the introduction of electronic requisitioning procedures.

The further steep rise in the prices of energy and oil-based products seen in 2007 is likely to continue in 2008. The

FINANCIAL TARGETS BY BUSINESS SEGMENT

	Targets 2008 (US GAAP)	Fiscal year 2007 (US GAAP)
Fresenius Medical Care		
Sales	> US$ 10.4 billion	US$ 9,720 million
Net income	US$ 805 - 825 million	US$ 717 million
Fresenius Kabi		
Sales growth (in constant currency)	12 - 15 %	€ 2,030 million
EBIT margin	~ 16.5 %	16.4 %
Fresenius Helios		
Sales	> € 2,050 million	€ 1,841 million
EBIT	€ 160 - 170 million	€ 155 million
Fresenius Vamed		
Sales growth	5 - 10 %	€ 408 million
EBIT growth	5 - 10 %	€ 26 million
Fresenius Biotech		
EBIT	~ € - 50 million	€ - 50 million

sustained strong demand from growth regions and geopolitical factors are the main but not the only drivers behind this development. We also expect the prices of processed corn products to remain at a high level. While the prices of processed milk products will probably ease a little from their present level, the underlying price trend will remain high.

Procurement management at HELIOS will face new challenges in the coming years but will be continuously improved. Clinics are treating more and more patients with greater needs in terms of medical supplies. In the combined efforts of the doctors and business economists, not only do responsible patient-oriented decisions have to be reached, but a balance has also to be maintained between quality and cost efficiency. This is a constant challenge. HELIOS has also developed a special concept for integrating newly acquired clinics into the group network and into the central procurement management system. The goal for 2008 is to integrate the newly acquired clinics and unlock cost-saving potential as swiftly as possible. HELIOS is also extending the requirements bundling, for example for drugs. Purchasing strategy at HELIOS includes a more widespread use of e-procurement at the individual clinics. Electronic procurement processes are to be introduced at all HELIOS clinics by the year 2010.

RESEARCH AND DEVELOPMENT

Our R&D activities will continue to play a key role in securing the Group's long-term growth through innovations and new therapies. We are concentrating our R&D on products for the treatment of patients with chronic kidney failure. The emphasis will be on dialysis membranes, dialysis machines and other products. We are also focusing on other extracorporeal therapies, such as those used in the treatment of patients with liver disease and research into alternative regional anticoagulants, as well as our main research areas of infusion and nutrition therapies. We are also concentrating on targeted development in the biotechnology sector, mainly in the field of antibody therapies. Biotechnology research opens up possibilities for treating diseases which cannot be cured today, and offers Fresenius potential for further growth with innovative cancer therapies. Based on the encouraging results of a phase II/III study, the filing dossier was dispatched to the EMEA (European Medicines Agency), the European drug approval agency, at the end of 2007 for the approval of the antibody Removab® for the indication of malignant ascites. Fresenius Biotech expects a possible market introduction of this product in the indication of malignant ascites – subject to approval – at beginning of 2009. Further clinical studies with the antibodies Removab® and Rexomun® for various indications are ongoing.

We are planning to invest more in research and development in 2008. The increase should be higher than the expected organic growth rate in sales. The number of employees in research and development will also be increased.

Market-oriented research and development with strict time-to-market management processes is crucial for the success of new products. Using clearly defined milestones, we continually review our R&D results.

Innovative ideas, product development and therapies with a high level of quality will continue to be the basis for market-leading products in the future.

CORPORATE LEGAL STRUCTURE AND ORGANIZATION

Fresenius completed its conversion from a public limited company incorporated under German law (Aktiengesellschaft) into a Societas Europaea (SE) in 2007. No further change in the Company's legal form is planned in the foreseeable future.

As of January 1, 2008, the Fresenius Group is divided into four business segments, each of which is a legally independent entity. The business segments are organized on a regional and decentralized basis to provide the greatest flexibility for meeting the demands of the respective markets. The "entrepreneur in the enterprise" principle, with its clearly defined responsibilities, has proven itself over many years. We will continue to follow this principle.

PLANNED CHANGES IN HUMAN RESOURCES AND THE SOCIAL AREA

The number of employees in the Group will continue to rise in the future as a result of strong organic expansion, but growth in employee numbers will be held below the expected rate of organic sales growth. The regional distribution of our employees will not change significantly – just under 50 % will be located in Europe, about 35 % in North America, and the remaining 15 % in Asia-Pacific, Latin America, and Africa.

DIVIDEND

Continuity in our dividend policy remains an important priority, clearly demonstrated by steady dividend increases over the last 14 years. We want to remain true to this policy in the 2008 fiscal year and offer our shareholders a dividend in line with our positive earnings forecasts.

FRESENIUS CONTENTS

CONSOLIDATED STATEMENT OF INCOME

January 1 to December 31, in million €	Note	2007	2006
Sales	3	**11,391**	10,776
Cost of sales	4	**-7,687**	-7,339
Gross profit		**3,704**	3,437
Selling, general and administrative expenses	7	**-1,875**	-1,828
Research and development expenses	8	**-182**	-166
Operating income (EBIT)		**1,647**	1,443
Interest income	9	**27**	23
Interest expenses	9	**-395**	-418
Earnings before income taxes and minority interest		**1,279**	1,048
Income taxes	10	**-469**	-413
Earnings after income taxes and before minority interest		**810**	635
Minority interest	24	**-388**	-305
Group net income		**422**	330
Basic earnings per ordinary share in €	11	**2.72**	2.15
Fully diluted earnings per ordinary share in €	11	**2.69**	2.12
Basic earnings per preference share in €	11	**2.73**	2.16
Fully diluted earnings per preference share in €	11	**2.70**	2.13

The following Notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

ASSETS

as of December 31, in million €	Note	2007	2006
Cash and cash equivalents	12	**361**	261
Trade accounts receivable, less allowance for doubtful accounts	13	**2,159**	2,088
Accounts receivable from and loans to related parties		**8**	8
Inventories	14	**875**	761
Prepaid expenses and other current assets	15	**603**	730
I. Total current assets		**4,006**	3,848
Property, plant and equipment	16	**2,973**	2,715
Goodwill	17	**7,093**	7,119
Other intangible assets	17	**572**	571
Other non-current assets	15	**294**	387
thereof at equity consolidated financial investments		**14**	12
Deferred taxes	10	**389**	384
II. Total non-current assets		**11,321**	11,176
Total assets		**15,327**	15,024

LIABILITIES AND SHAREHOLDERS' EQUITY

as of December 31, in million €	Note	2007	2006
Trade accounts payable		**485**	464
Short-term accounts payable to related parties		**5**	2
Short-term accrued expenses and other short-term liabilities	18, 19	**1,898**	1,821
Short-term borrowings	20	**362**	330
Short-term loans from related parties		**–**	1
Current portion of long-term debt and liabilities from capital lease obligations	20	**120**	272
Current portion of trust preferred securities of Fresenius Medical Care Capital Trusts	23	**455**	0
Short-term accruals for income taxes		**158**	159
A. Total short-term liabilities		**3,483**	3,049
Long-term debt and liabilities from capital lease obligations, less current portion	20	**2,887**	3,230
Senior notes	21	**1,434**	1,100
Long-term liabilities and loans from related parties		**0**	–
Long-term accrued expenses and other long-term liabilities	18, 19	**292**	283
Trust preferred securities of Fresenius Medical Care Capital Trusts, less current portion	23	**446**	946
Pension liabilities	22	**273**	260
Long-term accruals for income taxes		**87**	0
Deferred taxes	10	**326**	358
B. Total long-term liabilities		**5,745**	6,177
I. Total liabilities		**9,228**	9,226
A. Minority interest	24	**2,674**	2,595
Subscribed capital	25	**155**	132
Capital reserve	25	**1,786**	1,770
Other reserves	25	**1,572**	1,239
Accumulated other comprehensive income (loss)	26	**-88**	62
B. Total Group's equity		**3,425**	3,203
II. Total shareholders' equity		**6,099**	5,798
Total liabilities and shareholders' equity		**15,327**	15,024

The following Notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

January 1 to December 31, in million €	Note	2007	2006
Cash provided by/used for operating activities			
Group net income		**422**	330
Minority interest	24	**388**	305
Adjustments to reconcile Group net income to cash and cash equivalents provided by operating activities			
Cash inflow from hedging		**–**	9
Depreciation and amortization	15, 16, 17	**427**	406
Loss on sale of investments		**0**	2
Change in deferred taxes	10	**27**	76
Gain/loss on sale of fixed assets		**-1**	14
Change in assets and liabilities, net of amounts from businesses acquired or disposed of			
Change in trade accounts receivable, net	13	**-112**	-86
Change in inventories	14	**-125**	-49
Change in prepaid expenses and other current and non-current assets	15	**55**	-126
Change in accounts receivable from/payable to related parties		**-1**	4
Change in trade accounts payable, accruals and other short-term and long-term liabilities		**498**	582
Received interest	9	**27**	23
Paid interest	30	**-388**	-393
Change in accruals for income taxes		**409**	362
Tax payments related to divestitures and acquisitions		**0**	-52
Income taxes paid	30	**-323**	-349
Cash provided by operating activities		**1,303**	1,058
Cash provided by/used for investing activities			
Purchase of property, plant and equipment		**-711**	-595
Proceeds from the sale of property, plant and equipment		**38**	18
Acquisitions and investments, net of cash acquired	2, 30	**-443**	-3,657
Proceeds from divestitures	2	**52**	438
Cash used for investing activities		**-1,064**	-3,796

January 1 to December 31, in million €	Note	2007	2006
Cash provided by/used for financing activities			
Proceeds from short-term borrowings	20	**175**	54
Repayments of short-term borrowings	20	**-108**	-670
Repayments of borrowings from related parties		**0**	-1
Proceeds from long-term debt and liabilities from capital lease obligations	20	**224**	3,323
Repayments of long-term debt and liabilities from capital lease obligations	20	**-496**	-914
Proceeds from liabilities from Senior Notes	21	**353**	978
Repayments of liabilities from Senior Notes	21	**0**	-314
Changes of accounts receivable facility	20	**-132**	137
Proceeds from the exercise of stock options	32	**55**	75
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares		**0**	258
Dividends paid		**-205**	-171
Change in minority interest	24	**–**	1
Exchange rate effect due to corporate financing		**11**	4
Cash provided by/used for financing activities		**-123**	2,760
Effect of exchange rate changes on cash and cash equivalents		**-16**	-13
Net increase in cash and cash equivalents		**100**	9
Cash and cash equivalents at the beginning of the year	12	**261**	252
Cash and cash equivalents at the end of the year	12	**361**	261

The following Notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

		Ordinary shares		Preference shares		Subscribed Capital	
	Note	Number of shares (thousand)	Amount (thousand €)	Number of shares (thousand)	Amount (thousand €)	Amount (thousand €)	Amount (million €)
As of December 31, 2005		25,361	64,924	25,361	64,924	129,848	130
Issuance of bearer ordinary and bearer preference shares	25	177	453	177	453	906	1
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares							
Proceeds from the exercise of stock options	32	188	481	188	481	962	1
Compensation expense related to stock options	32						
Minimum dividend of ordinary shareholders							
Dividends paid	25						
Comprehensive income (loss)							
Group net income							
Other comprehensive income (loss) related to							
Cash flow hedges	26, 28						
Foreign currency translation	26						
Comprehensive income (loss)							
As of December 31, 2006		25,726	65,858	25,726	65,858	131,716	132
Capital increase from the Company's funds	1	51,451	11,319	51,451	11,319	22,638	22
Proceeds from the exercise of stock options	32	405	405	405	405	810	1
Compensation expense related to stock options	32						
Minimum dividend of ordinary shareholders							
Dividends paid	25						
Comprehensive income (loss)							
Group net income							
Other comprehensive income (loss) related to							
Cash flow hedges	26, 28						
Foreign currency translation	26						
Comprehensive income (loss)							
As of December 31, 2007		77,582	77,582	77,582	77,582	155,164	155

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	Note	Reserves: Capital reserve (million €)	Reserves: Other reserves (million €)	Other comprehensive income (loss): Foreign currency translation (million €)	Other comprehensive income (loss): Cash flow hedges (million €)	Total Groups' equity (million €)	Minority interest (million €)	Total share-holders' equity (million €)
As of December 31, 2005		1,603	985	149	14	2,881	2,323	5,204
Issuance of bearer ordinary and bearer preference shares	25	41				42	0	42
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares		94				94	164	258
Proceeds from the exercise of stock options	32	31				32	43	75
Compensation expense related to stock options	32	12				12	8	20
Minimum dividend of ordinary shareholders		-11				-11	0	-11
Dividends paid	25		-76			-76	-95	-171
Comprehensive income (loss)								
Group net income			330			330	305	635
Other comprehensive income (loss) related to								
Cash flow hedges	26, 28				16	16	0	16
Foreign currency translation	26			-117		-117	-153	-270
Comprehensive income (loss)			330	-117	16	229	152	381
As of December 31, 2006		1,770	1,239	32	30	3,203	2,595	5,798
Capital increase from the Company's funds	1	-22				0	0	0
Proceeds from the exercise of stock options	32	20				21	34	55
Compensation expense related to stock options	32	17				17	11	28
Minimum dividend of ordinary shareholders		1				1	0	1
Dividends paid	25		-89			-89	-116	-205
Comprehensive income (loss)								
Group net income			422			422	388	810
Other comprehensive income (loss) related to								
Cash flow hedges	26, 28				-37	-37	0	-37
Foreign currency translation	26			-113		-113	-238	-351
Comprehensive income (loss)			422	-113	-37	272	150	422
As of December 31, 2007		1,786	1,572	-81	-7	3,425	2,674	6,099

The following Notes are an integral part of the Consolidated Financial Statements.

SEGMENT REPORTING
by business segment

in million €	Fresenius Medical Care 2007	2006	Change	Fresenius Kabi 2007	2006	Change	Fresenius ProServe 2007	2006
Sales	**7,093**	6,768	5 %	**2,030**	1,893	7 %	**2,268**	2,155
thereof contribution to consolidated sales	**7,089**	6,763	5 %	**1,986**	1,853	7 %	**2,264**	2,145
thereof intercompany sales	**4**	5	-20 %	**44**	40	10 %	**4**	10
contribution to consolidated sales	**62 %**	63 %		**18 %**	17 %		**20 %**	20 %
EBITDA	**1,418**	1,295	9 %	**408**	370	10 %	**250**	218
Depreciation and amortization	**265**	245	8 %	**76**	79	-4 %	**69**	64
EBIT	**1,153**	1,050	10 %	**332**	291	14 %	**181**	154
Net interest	**-271**	-280	3 %	**-49**	-70	30 %	**-47**	-40
Net income	**523**	427	22 %	**183**	143	28 %	**81**	75
thereof from associates and joint ventures	**0**	0	0 %	**0**	0	0 %	**1**	0
Operating cash flow	**875**	723	21 %	**179**	202	-11 %	**274**	176
Cash flow before acquisitions and dividends	**475**	365	30 %	**67**	101	-34 %	**133**	73
Total assets	**9,626**	9,905	-3 %	**2,310**	1,965	18 %	**3,329**	3,108
Debt	**3,833**	4,236	-10 %	**1,121**	880	27 %	**1,045**	932
Other operating liabilities	**1,661**	1,614	3 %	**603**	598	1 %	**950**	888
Capital expenditure	**423**	372	14 %	**116**	113	3 %	**153**	106
Acquisitions	**257**	3,561	-93 %	**178**	14	--	**175**	139
Research and development expenses	**49**	41	20 %	**86**	77	12 %	**1**	1
Employees (per capita on balance sheet date)	**64,662**	59,996	8 %	**16,964**	15,591	9 %	**31,815**	28,615
Key figures								
EBITDA margin	**20.0 %**	19.1 %		**20.1 %**	19.5 %		**11.0 %**	10.1 %
EBIT margin	**16.3 %**	15.5 %		**16.4 %**	15.4 %		**8.0 %**	7.1 %
Depreciation and amortization in % of sales	**3.7 %**	3.6 %		**3.7 %**	4.2 %		**3.0 %**	3.0 %
Operating cash flow in % of sales	**12.3 %**	10.7 %		**8.8 %**	10.7 %		**12.1 %**	8.2 %
ROOA	**12.5 %**	11.3 %[1]		**17.7 %**	17.3 %		**6.5 %**	5.6 %

[1] Calculation is based on the pro forma EBIT excluding the gain on the sale of dialysis clinics of Fresenius Medical Care.

Notes

	thereof Fresenius Helios	thereof Fresenius Vamed	Corporate/Other			IFRS-Reconciliation			Fresenius Group IFRS		
Change	2007	2007	2007	2006	Change	2007	2006	Change	2007	2006	Change
5 %	1,841	408	-33	-39	15 %	33	-1	--	11,391	10,776	6 %
6 %	1,841	408	19	16	19 %	33	-1	--	11,391	10,776	6 %
-60 %	0	0	-52	-55	5 %	0	0	0 %	0	0	
	16 %	4 %	0 %	0 %		0 %	0 %		100 %	100 %	
15 %	220	31	-46	-40	-15 %	44	6	--	2,074	1,849	12 %
8 %	65	5	11	11	0 %	6	7	-14 %	427	406	5 %
18 %	155	26	-57	-51	-12 %	38	-1	--	1,647	1,443	14 %
-18 %	-53	6	-1	-5	80 %	0	0	0 %	-368	-395	7 %
8 %	64	23	-377	-315	-20 %	12	0	--	422	330	28 %
--	1	0	0	0	0 %	0	0	0 %	1	0	--
56 %	202	72	-32	-49	35 %	7	6	17 %	1,303	1,058	23 %
82 %	65	68	-45	-58	22 %	0	0	0 %	630	481	31 %
7 %	3,072	390	59	46	28 %	3	0	--	15,327	15,024	2 %
12 %	1,136	0	-300	-176	-70 %	5	7	-29 %	5,704	5,879	-3 %
7 %	682	251	14	-57	125 %	-30	-54	44 %	3,198	2,989	7 %
44 %	149	4	13	9	44 %	7	6	17 %	712	606	17 %
26 %	174	6	3	0	--	0	0	0 %	613	3,714	-83 %
0 %	1	0	48	48	0 %	-2	-1	-100 %	182	166	10 %
11 %	30,043	1,767	740	670	10 %	0	0	0 %	114,181	104,872	9 %
	12.0 %	7.6 %							18.2 %	17.2 %	
	8.4 %	6.4 %							14.5 %	13.4 %	
	3.5 %	1.2 %							3.7 %	3.8 %	
	11.0 %	17.6 %							11.4 %	9.8 %	
	5.6 %	22.8 %							11.6 %	10.3 % [1]	

The segment reporting is an integral part of the Notes.
The following Notes are an integral part of the Consolidated Financial Statements.

SEGMENT REPORTING
by region

in million €	Europe 2007	2006	Change	North America 2007	2006	Change
Sales	**4,852**	4,535	7 %	**4,965**	4,862	2 %
contribution to consolidated sales	**43 %**	43 %		**44 %**	45 %	
EBIT	**575**	499	15 %	**863**	769	12 %
Depreciation and amortization	**224**	217	3 %	**163**	150	9 %
Total assets	**6,737**	6,257	8 %	**7,347**	7,694	-5 %
Capital expenditure	**388**	294	32 %	**245**	245	0 %
Acquisitions	**327**	150	118 %	**195**	3,544	-94 %
Employees (per capita on balance sheet date)	**56,830**	52,062	9 %	**40,076**	38,597	4 %

Asia-Pacific			Latin America			Africa			Fresenius Group		
2007	2006	Change	**2007**	2006	Change	**2007**	2006	Change	**2007**	2006	Change
802	696	15 %	**488**	452	8 %	**284**	231	23 %	**11,391**	10,776	6 %
7 %	6 %		**4 %**	4 %		**2 %**	2 %		**100 %**	100 %	
119	103	16 %	**52**	48	8 %	**38**	24	58 %	**1,647**	1,443	14 %
23	20	15 %	**14**	16	-13 %	**3**	3	0 %	**427**	406	5 %
720	573	26 %	**450**	443	2 %	**73**	57	28 %	**15,327**	15,024	2 %
34	25	36 %	**39**	38	3 %	**6**	4	50 %	**712**	606	17 %
72	4	--	**17**	13	31 %	**2**	3	-33 %	**613**	3,714	-83 %
6,917	4,968	39 %	**9,481**	8,499	12 %	**877**	746	18 %	**114,181**	104,872	9 %

The segment reporting is an integral part of the Notes.
The following Notes are an integral part of the Consolidated Financial Statements.

FRESENIUS CONTENTS

GENERAL NOTES

1. PRINCIPLES

I. GROUP STRUCTURE

Fresenius is a worldwide operating health care group with products and services for dialysis, the hospital and the medical care of patients at home. Further areas of activity are hospital operations as well as engineering and services for hospitals and other health care facilities. In addition to the activities of Fresenius SE, the operating activities were split into the following legally-independent business segments (subgroups) in the fiscal year 2007:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius ProServe

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats 173,863 patients in its 2,238 own dialysis clinics.

Fresenius Kabi is Europe's leading company in the field of infusion therapy and clinical nutrition with subsidiaries and distributors worldwide. Fresenius Kabi's products are used in hospitals as well as in out-patient medical care to treat critically and chronically ill patients. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

Fresenius ProServe is a leading German, private hospital operator with 60 facilities. Moreover, the company offers engineering and services for hospitals and other health care facilities. As of January 1, 2008, Fresenius ProServe was replaced by two new business segments – Fresenius Helios and Fresenius Vamed, which so far have formed Fresenius ProServe. Fresenius Helios is focused on hospital operations. Fresenius Vamed offers engineering and services for hospitals and other health care facilities.

Fresenius SE owned 36.41 % of the ordinary voting shares of Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA) and 35.95 % of the total subscribed capital of FMC-AG & Co. KGaA at the end of the fiscal year 2007. Fresenius Medical Care Management AG (FMC Management AG), the general partner of FMC-AG & Co. KGaA, is a wholly-owned subsidiary of Fresenius SE. Due to this structure, FMC-AG & Co. KGaA is fully consolidated in the consolidated financial statements of the Fresenius Group. Fresenius SE continued to hold 100 % of the management companies of the business segments Fresenius Kabi (Fresenius Kabi AG) and Fresenius ProServe (Fresenius ProServe GmbH) on December 31, 2007. In addition, Fresenius SE holds interests in companies with holding functions regarding real estate, financing and insurance, as well as in Fresenius Netcare GmbH which offers services in the field of information technology and in Fresenius Biotech Beteiligungs GmbH.

The reporting currency in the Fresenius Group is the euro. In order to make the presentation clearer, amounts are mostly shown in million euros. Amounts which are lower than € 1 million after they have been rounded are marked with "–".

II. CONVERSION OF FRESENIUS AG INTO A EUROPEAN COMPANY (SE) AND NEW DIVISION OF THE SUBSCRIBED CAPITAL

On December 4, 2006, at the Extraordinary General Meeting, Fresenius AG's shareholders approved the proposal to convert the Company's legal form from a German stock corporation (Aktiengesellschaft) into a European Company (Societas Europaea – SE). The conversion became effective on July 13, 2007 upon the registration in the commercial register after the successful completion of the procedure for the involvement of the employees. Fresenius AG's name after the conversion is Fresenius SE. The conversion of Fresenius AG into a SE neither leads to a liquidation of the Company nor to the formation of a new legal entity. The Company's corporate structure and management organization as well as the interests of the shareholders in the Company continue to exist unchanged because of the identity of the legal entity. In the Articles of Association of Fresenius SE, the existing two-tier system consisting of Management Board and Supervisory Board will remain unchanged. The Supervisory Board of Fresenius SE continues to have twelve members.

Furthermore, Fresenius AG's shareholders approved at the Extraordinary General Meeting to conduct a new division of the subscribed capital of Fresenius AG (share split) in connection with a capital increase from the Company's funds without the issuance of new shares. As a result, the number of ordinary shares and preference shares issued tripled. The share split in connection with an increase of the subscribed capital became effective upon the registration in the commercial register on January 24, 2007. Before the registration in the commercial register, the subscribed capital of Fresenius AG amounted to € 131,715,307.52 and was divided in 25,725,646 ordinary shares and 25,725,646 preference shares. Through a conversion of capital reserves, the subscribed capital was first increased by € 22,638,568.48 to € 154,353,876.00 and then divided in 77,176,938 ordinary shares and 77,176,938 preference shares. The new proportionate amount of the subscribed capital is € 1.00 per share. Following the share split, every holder of an ordinary share holds three ordinary shares and every holder of a preference share holds three preference shares.

III. BASIS OF PRESENTATION

Since January 1, 2005, Fresenius SE as a stock exchange listed company with a domicile in a member state of the European Union fulfills its the obligation to prepare and publish the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applying § 315a of the German Commercial Code (HGB). The consolidated financial statements of Fresenius SE at December 31, 2007 have been prepared and will be published in accordance with the Standards valid on the balance sheet date issued by the International Accounting Standards Board (IASB) and the mandatory Interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), which are binding to be applied in the EU. At the same time, the Fresenius Group voluntarily continues to prepare and publish consolidated financial statements in accordance with United States Generally Accepted Accounting Principles (US GAAP).

In order to improve clarity of presentation, various items are aggregated in the consolidated balance sheet and statement of income. These items are analyzed separately in the Notes where this provides useful information to the users of the consolidated financial statements.

Moreover, the Notes include information required by HGB according to § 315a (1) sentence 1 HGB. The consolidated financial statements include a management report according to § 315a HGB in conjunction with § 315 HGB.

The consolidated balance sheet contains all information required to be disclosed by IAS 1 (Presentation of Financial Statements) and is in accordance with RIC 1 (Balance Sheet Classification according to current/non-current Distinction in compliance with IAS 1 Presentation of Financial Statements) classified on the basis of the liquidity of assets and liabilities following the consolidated balance sheet in accordance with US GAAP; the consolidated statement of income is classified using the cost-of-sales accounting format.

At February 22, 2008, the Management Board authorized the consolidated financial statements for issue and passed it through to the Supervisory Board. The Supervisory Board has to control and approve the consolidated financial statements.

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The financial statements of consolidated entities have been prepared using uniform accounting methods in accordance with IAS 27 (Consolidated and Separate Financial Statements).

Capital consolidation is performed according to IFRS 3 (Business Combinations) by offsetting investments in subsidiaries against the underlying revaluated equity at the date of acquisition. The identifiable assets and liabilities of subsidiaries are recognized at their fair values. Any remaining debit balance is recognized as goodwill and is tested at least once a year for impairment.

The equity method is applied in accordance with IAS 28 (Investments in Associates).

All significant intercompany revenues, expenses, income, receivables and payables are eliminated.

Profits and losses on items of property, plant and equipment and inventory acquired from other group entities are also eliminated.

Deferred tax assets and liabilities are recognized on temporary differences resulting from consolidation procedures.

Minority interest comprises the interest of minority shareholders in the consolidated equity of group entities. Profits and losses attributable to the minority shareholders are separately disclosed in the statement of income.

b) Composition of the Group

Besides Fresenius SE, the consolidated financial statements include all material subsidiaries in which Fresenius SE, directly or indirectly, holds a majority investment or the majority of the voting power and has the possibility of control.

Special purpose entities as defined by SIC 12 (Consolidation – Special Purpose Entities) are consolidated if they are controlled by a Fresenius Group company, i. e. risk and rewards remain with the Group.

Joint ventures and entities in which Fresenius SE, directly or indirectly, holds between 20 % and 50 % of the voting power and can exercise a significant influence over their financial and operating policies, are consolidated using the equity method.

The consolidated financial statements of 2007 include, in addition to Fresenius SE, 133 (2006: 123) German and 854 (2006: 838) foreign companies.

The composition of the Group changed as follows:

	Germany	Abroad	Total
December 31, 2006	**123**	**838**	**961**
Additions	16	56	72
of which newly founded	2	8	10
of which acquired	9	38	47
Disposals	6	40	46
of which no longer consolidated	4	21	25
of which merged	2	19	21
December 31, 2007	**133**	**854**	**987**

18 companies (2006: 13) were accounted for under the equity method.

The complete list of the investments of Fresenius SE, registered office in Bad Homburg v. d. H., will be submitted to the electronic Federal Gazette and the electronic companies register.

In 2007, the following fully consolidated German subsidiaries of the Fresenius Group applied the exemption provided in Section 264 (3) of the German Commercial Code (HGB).

Name of the company	Registered office
Fresenius Kabi	
Fresenius HemoCare GmbH	Bad Homburg v.d.H.
Fresenius HemoCare Beteiligungs GmbH	Frankfurt am Main
Fresenius HemoCare Deutschland GmbH	Bad Homburg v.d.H.
Fresenius Kabi AG	Frankfurt am Main
Fresenius Kabi Deutschland GmbH	Bad Homburg v.d.H.
Hosped GmbH	Friedberg
MC Medizintechnik GmbH	Alzenau
V. Krütten Medizinische Einmalgeräte GmbH	Idstein
Fresenius Helios	
HELIOS Agnes Karll Krankenhaus GmbH	Bad Schwartau
HELIOS Care GmbH	Berlin
HELIOS Catering GmbH	Berlin
HELIOS Kids in Pflege GmbH	Geesthacht
HELIOS Klinik Dresden-Wachwitz GmbH	Dresden
HELIOS Klinik Geesthacht GmbH	Geesthacht
HELIOS Kliniken GmbH	Berlin
HELIOS Kliniken Leipziger Land GmbH	Borna
HELIOS Klinikum Bad Saarow GmbH	Bad Saarow
HELIOS Klinikum Erfurt GmbH	Erfurt
HELIOS Pflege Dresden GmbH	Dresden
HELIOS Privatkliniken GmbH	Berlin
HELIOS Schlossbergklinik Oberstaufen GmbH	Oberstaufen
HELIOS Service GmbH	Berlin
HELIOS Vogtland-Klinikum Plauen GmbH	Plauen
HUMAINE Kliniken GmbH	Berlin
Senioren- und Pflegeheim Erfurt GmbH	Erfurt
St. Josefs-Hospital GmbH	Bochum
Corporate/Other	
Fresenius Biotech GmbH	Gräfelfing
Fresenius Biotech Beteiligungs GmbH	Frankfurt am Main
Fresenius Netcare GmbH	Berlin
Fresenius ProServe GmbH	Bad Homburg v.d.H.
Fresenius ProServe Beteiligungs GmbH	Bad Homburg v.d.H.

c) Classifications

Certain items in the prior year's consolidated financial statements have been reclassified to conform with the current year's presentation. The calculation of earnings per share (see Note 11, Earnings per share) has been adjusted due to the share split of Fresenius SE (formerly: Fresenius AG) recorded in the commercial register on January 24, 2007, for the increased number of shares in the fiscal year 2006.

d) Sales recognition policy

Sales from services are recognized at amounts estimated to be received under the reimbursement arrangements. Sales are recognized on the date services and related products are provided and the payor is obligated to pay.

Product sales are recognized when title to the product passes to the customers either at the time of shipment, upon receipt by the customer or upon any other terms that clearly define passage of title. As product returns are not typical, no return allowances are established. In case of a return, an appropriate reduction to sales, cost of sales and accounts receivable is made . Sales are stated net of discounts, allowances and rebates.

In the business segment Fresenius Vamed, sales for long-term production contracts are recognized depending on the individual agreement, using the percentage-of-completion (PoC) method when the conditions of IAS 18 (Revenue) and IAS 11 (Construction Contracts) are met. The sales to be recognized are calculated as a percentage of the costs already incurred based on the estimated total cost of the contract, milestones laid down in the contract or according to the proportion of work completed. Profits are only recognized when the outcome of a production contract accounted for using the PoC method can be measured reliably.

Any tax assessed by a governmental authority that is incurred as a result of a revenue transaction is reported on a net basis, i. e. excluded from revenues.

e) Government grants

In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance), public sector grants are not recognized until there is reasonable assurance that the respective conditions are met and the grants will be received. At first, the grant is recorded as a liability and as soon as the asset is acquired the grant is offset against the acquisition costs. Expense-related grants are recognized as income in the periods in which related costs occur.

f) Research and development expenses

Research is the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge. Development is the technical and commercial implementation of research results. Research costs are expensed as incurred. Development costs that fully meet the criteria for the recognition of an intangible asset set out in IAS 38 (Intangible Assets) are capitalized as intangible asset.

g) Impairment

The Fresenius Group reviews the carrying amount of its property, plant and equipment, its intangible assets with definite useful lives as well as other non-current assets for impairment whenever events or changes in circumstances indicate that the carrying amount is higher than the asset's net realizable value or its value in use in accordance with IAS 36 (Impairment of Assets). The net realizable value of an asset is defined as its fair value less costs to sell. The value in use is the present value of future cash flows expected to be derived from the relevant asset. If it is not possible to estimate the future cash flows from the individual assets, impairment is tested on the basis of the future cash flows of the corresponding cash generating units (CGUs).

Impairment losses, except impairment losses recognized on goodwill, are reversed as soon as the reasons for impairment no longer exist.

In accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) assets held for sale are reported at the lower of their carrying amount and fair value less costs to sell. As long as the company intends to sell the asset, it is not depreciated.

h) Capitalized Interest

The Fresenius Group includes capitalized interest as part of the cost of the asset if they are directly attributable to the acquisition, construction or manufacture of qualifying assets in accordance with IAS 23 (Borrowing Costs).

For the fiscal years 2007 and 2006, interest of € 6 million and € 5 million, based on an average interest rate of 5.60 % and 5.58 %, respectively, was recognized as a component of the cost of assets.

i) Deferred taxes

In accordance with IAS 12 (Income Taxes), deferred tax assets and liabilities are recognized for the future consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Furthermore, deferred taxes are recognized on consolidation procedures affecting net income. Deferred tax assets also include claims to future tax reductions which arise from the expected usage of existing tax losses available for carryforward where future recoverability is probable.

Deferred taxes are computed using enacted or planned tax rates which are expected to apply in the relevant national jurisdictions when the amounts are recovered.

The recoverability of the carrying amount of a deferred tax asset is reviewed at each balance sheet date. A deferred tax asset is recognized to the extent that the utilization of parts or all of it is probable because sufficient taxable profit will be available.

j) Earnings per ordinary share and preference share
Basic earnings per ordinary share and preference share are computed in accordance with IAS 33 (Earnings per Share). Basic earnings per ordinary share is computed by dividing net income of the group less preference amounts by the weighted-average number of ordinary shares and preference shares outstanding during the year. Basic earnings per preference share is derived by adding the preference per preference share to the basic earnings per ordinary share. Diluted earnings per share include the effect of all potentially dilutive instruments on ordinary shares and preference shares that would have been outstanding during the fiscal year. The awards granted under Fresenius' and Fresenius Medical Care's stock option plans can result in a dilutive effect.

k) Cash and cash equivalents
Cash and cash equivalents comprise cash funds and all short-term, liquid investments with original maturities of up to three months.

l) Trade accounts receivable
Trade accounts receivable are stated at their nominal value less allowance for doubtful accounts. Allowances are estimated mainly on the basis of payment history to date, the age structure of balances and the contractual partner involved. In order to assess the appropriateness of allowances, the Fresenius Group checks regularly whether there have been any divergences to previous payment history.

m) Inventories
In accordance with IAS 2 (Inventories), inventories comprise all assets which are held for sale in the ordinary course of operations (finished products), in the process of production for such sale (work in progress) or consumed in the production process or in the rendering of services (raw materials and supplies).

Inventories are measured at the lower of acquisition or manufacturing cost (determined by using the average or first-in, first-out method) or net realizable value. Manufacturing costs comprise direct costs, production and material overhead, including depreciation charges.

n) Property, plant and equipment
Property, plant and equipment are stated at acquisition and manufacturing cost less accumulated depreciation. Significant improvements are capitalized; repair and maintenance costs that do not extend the useful lives of the assets are charged to expense as incurred. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of

the assets ranging from 4 to 50 years for buildings and improvements (with a weighted-average life of 15 years) and 3 to 20 years for machinery and equipment (with a weighted-average life of 10 years).

o) Intangible assets with definite useful lives

In accordance with IAS 38 (Intangible Assets), intangible assets with definite useful lives, for example non-compete agreements and technology, are amortized using the straight-line method over their respective useful lives to their residual values and reviewed for impairment in accordance with IAS 36 (Impairment of Assets) (see Note 1.IV.g, Impairment). Non-compete agreements have useful lives ranging from 7 to 25 years with an average useful life of 8 years. Technology has a useful live of 15 years. All other intangible assets are amortized over their individual estimated useful lives between 2 and 40 years.

Impairment losses are recognized in the event of losses in value of a lasting nature and are reversed when the reasons for impairment no longer exist.

Development costs are capitalized as manufacturing costs when the recognition criteria set out in IAS 38 (Intangible Assets) are met.

For development costs of dialysis machines manufactured by Fresenius Medical Care, the timing of the recognition as assets is based on the technical utilizability of the machines. Capitalized development costs are amortized on a straight-line basis over a useful life of 10 years.

Fresenius Kabi capitalizes development costs after the registration of a new product. Costs are depreciated on a straight-line basis over a useful life of 5 years.

p) Goodwill and other intangible assets with indefinite useful lives

Intangible assets such as tradenames and certain qualified management contracts acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by IAS 38 (Intangible Assets). They are recorded at acquisition costs. Goodwill and intangible assets with indefinite useful lives are not amortized but tested for impairment annually or when an event becomes known that could trigger an impairment (impairment test).

To perform the annual impairment test of goodwill, the Fresenius Group identified several CGUs in accordance with IAS 36 (Impairment of Assets) and determined the carrying amount of each CGU by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those CGUs. A CGU is usually defined one level below the segment level according to regions or legal entities. Six CGUs were identified in the segment Fresenius Medical Care (Europe, Latin America, Asia-Pacific, North America Dialysis Products, North America Dialysis Services, North America Laboratory Services), while only one CGU exists in the segment Fresenius Kabi and two in the segment Fresenius ProServe (Fresenius Helios and Fresenius Vamed). At least once a year, the Fresenius Group compares the fair value of each CGU to the CGU's carrying amount. The fair value of a CGU is determined using a discounted cash flow approach based upon the cash flow expected to be generated by the CGU. In case that the fair value of the CGU is less than its carrying amount, the difference is at first recorded as an impairment of the fair value of the goodwill.

To evaluate the recoverability of separable intangible assets with indefinite useful lives, the Fresenius Group compares the fair values of these intangible assets with their carrying amounts. An intangible asset's fair value is determined using a discounted cash flow approach and other methods, if appropriate.

The recoverability of goodwill and other separable intangible assets with indefinite useful lives recorded in the Group's consolidated balance sheet was verified. As a result, the Fresenius Group did not record any impairment losses in 2007 and 2006.

Any excess of the net fair value of identifiable assets and liabilities over cost (Badwill) still existing after reassessing the purchase price allocation is recognized immediately in profit or loss.

q) Leases

Leased assets assigned to the Fresenius Group based on the risk and rewards approach (finance leases) are recognized as property, plant and equipment in accordance with IAS 17 (Leases) and measured on receipt date at their fair values as long as the present values of the lease payments are not lower. Leased assets are depreciated in straight-line over their useful lives. If there is doubt as to whether title to the asset passes at a later stage and there is no opportune purchase option the asset is depreciated over the lease term, if this is shorter. An impairment loss is recognized if the recoverable amount is lower than the amortized cost of the leased asset. The impairment loss is reversed if the reasons for impairment no longer exist.

Finance lease liabilities are measured at the present value of the future lease payments and are recognized as financial liability.

Property, plant and equipment, rented by the Fresenius Group, is accounted at its purchase costs. Its depreciation is calculated using the straight-line method over the leasing time and its expected residual value.

r) Derivative financial instruments

The Fresenius Group adopted IFRS 7 (Financial Instruments: Disclosures) as of January 1, 2007. The following categories according to IAS 39 (Financial Instruments: Recognition and Measurement) are relevant for the Fresenius Group: loans and receivables as well as financial liabilities measured at amortized cost. All other categories are immaterial or not existing. The Fresenius Group classifies its financial instruments into the following classes according to its character: cash and cash equivalents, assets recognized at carrying amount, liabilities recognized at carrying amount and derivates.

The relationship between classes and categories as well as the reconciliation to the balance sheet line items is shown in the following table:

Categories \ Classes	Cash and cash equivalents	Assets recognized at carrying amount	Liabilities recognized at carrying amount	Derivates
Loans and receivables		▶ Trade accounts receivable (incl. receivables from related parties)		
Financial liabilities measured at amortized cost			▶ Trade accounts payable ▶ Short-term accounts payable to related parties ▶ Short-term borrowings (incl. short-term loans from related parties) ▶ Long-term debt and liabilities from capital lease obligations ▶ Senior notes ▶ Trust preferred securities	
Relating to no category	▶ Cash and cash equivalents			▶ Prepaid expenses and other current assets, ▶ Other non-current assets ▶ Other short-term liabilities ▶ Other long-term liabilities

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), derivative financial instruments which primarily include foreign currency forward contracts and interest rate swaps are recognized as assets or liabilities at fair value in the balance sheet. Changes in the fair value of derivative financial instruments classified as fair value hedges and in the corresponding underlyings are recognized periodically in earnings. The effective portion of changes in fair value of cash flow hedges is recognized in accumulated other comprehensive income (loss) in shareholders' equity (see Note 28, Financial instruments). The non-effective portion of cash flow hedges is recognized in earnings immediately.

s) Liabilities

At the balance sheet date, liabilities are stated in accordance with IAS 39 (Financial Instruments: Recognition and Measurement) at amortized cost which normally corresponds to the settlement amount.

t) Legal contingencies

In the ordinary course of Fresenius Group's operations, the Fresenius Group is subject to litigation, arbitration and investigations relating to various aspects of its business. The Fresenius Group regularly analyzes current information about such claims for probable losses and provides accruals for such matters, including estimated expenses for legal services, as appropriate. The Fresenius Group utilizes its internal legal department as well as external resources for these assessments. In making the decision regarding the need for a loss accrual, the Fresenius Group considers the degree of probability of an unfavorable outcome and its ability to make a reasonable estimate of the amount of loss.

The filing of a suit or formal assertion of a claim, or the disclosure of any such suit or assertion, does not necessarily indicate that an accrual of a loss is appropriate.

u) Other accrued expenses

In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), accruals for taxes and other obligations are recognized when there is a present obligation to a third party arising from past events, it is probable that the obligation will be settled in the future and the amount can be reliably estimated.

Tax accruals include obligations for the current year and for prior periods.

Non-current accruals with a remaining period of more than one year are discounted to the present value of the expenditures expected to settle the obligation.

v) Pension liabilities and similar obligations

Pension obligations for post-employment benefits are measured in accordance with IAS 19 (Employee Benefits) using the projected unit credit method, taking into account trends for future salary and trends for pension increase. Actuarial gains and losses that exceed a corridor of 10 % of the present value of the defined benefit obligation are spread over the expected average remaining working lives of the employees participating in the plans, adjusted for fluctuation.

w) Debt issuance costs

Debt issuance costs are amortized over the term of the related obligation.

x) Stock option plans

The total cost of stock options and convertible equity instruments granted to members of the Management Board and executive employees of the Fresenius Group at the grant date is measured in accordance with IFRS 2 (Share-based Payment) using an option pricing model and recognized as expense over the vesting period of the stock option plans.

y) Self-insurance programs

Under the insurance programs for professional, product and general liability, auto liability and worker's compensation claims, the largest subsidiary of the Fresenius Group, located in North America, is partially self-insured for professional liability claims. For all other coverages, this subsidiary assumes responsibility for incurred claims up to predetermined amounts above which third party insurance applies. Reported liabilities for the year represent estimated future payments of the anticipated expense for claims incurred (both reported and incurred but not reported) based on historical experience and existing claim activity. This experience includes both the rate of claims incidence (number) and claim severity (cost) and is combined with individual claim expectations to estimate the reported amounts.

z) Foreign currency translation

The reporting currency is the euro. The Fresenius Group follows the provisions of IAS 21 (The Effects of Changes in Foreign Exchange Rates). Substantially all assets and liabilities of the foreign subsidiaries are translated at mid-closing rate on balance sheet date, while revenues and expenses are translated at average exchange rates. Adjustments due to foreign currency translation fluctuations are excluded from net earnings and are reported in accumulated other comprehensive income (loss). In addition, the translation adjustments of certain intercompany borrowings, which are considered foreign equity investments, are also reported in accumulated other comprehensive income (loss).

Gains and losses arising from the translation of foreign currency positions as well as those arising from the elimination of foreign currency intercompany loans are recorded as general and administrative expenses, as far as they are not considered foreign equity instruments. Out of this transaction, only immaterial losses resulted in the fiscal year 2007.

The exchange rates of the main currencies affecting foreign currency translation developed as follows:

	Year-end exchange rate [1] Dec 31, 2007	Year-end exchange rate [1] Dec 31, 2006	**Average exchange rate 2007**	Average exchange rate 2006
US dollar per €	**1.4721**	1.3170	**1.3705**	1.2558
Pound sterling per €	**0.7334**	0.6715	**0.6845**	0.6817
Swedish krona per €	**9.4415**	9.0404	**9.2507**	9.2530
Chinese renminbi per €	**10.7524**	10.2793	**10.4183**	10.0099
Japanese yen per €	**164.93**	156.93	**161.26**	146.06

[1] mid-closing rate on balance sheet date

aa) Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

bb) Receivables management

The entities of the Fresenius Group perform ongoing evaluations of the financial situation of their customers and generally do not require a collateral from the customers for the supply of products and provision of services. Approximately 22 % and 24 % of the Fresenius Group's sales were earned and subject to the regulations under governmental health care programs, Medicare and Medicaid, administered by the United States government in 2007 and 2006, respectively.

cc) Recent pronouncements and accounting changes

The Fresenius Group has prepared its consolidated financial statements at December 31, 2007 in conformity with IFRS that have to be applied for fiscal years beginning on January 1, 2007, or IFRS that can be applied earlier on a voluntary basis.

The Fresenius Group applied the following standards, as far as they are relevant for the Fresenius Group's business, for the first time in 2007:

- IFRS 7 (Financial Instruments: Disclosures)
- IFRS 8 (Operating Segments)
- Amendments to IAS 1 (Presentation of Financial Statements – Capital Disclosures)
- IFRIC 11 (IFRS 2 – Group and Treasury Share Transactions)

In August 2005, the IASB issued **IFRS 7** (Financial Instruments: Disclosures). IFRS 7 introduces new requirements to improve the information on financial instruments with regard to risk management, besides the already existing disclosures (about approach/definition, presentation and measurement of financial instruments) in the IFRS-consolidated financial statements. IFRS 7 is effective for fiscal years beginning on or after January 1, 2007. The Fresenius Group applies IFRS 7 since January 1, 2007.

In August 2005, the IASB issued the amendment to **IAS 1** (Presentation of Financial Statements – Capital Disclosures). The changes to IAS 1 will require an entity to disclose certain qualitative information about its objectives, policies and processes for their capital management. Furthermore, determination and control of the capital structure by management should be explained, as well as the structure of the capital itself. The revised IAS 1 is effective for fiscal years beginning on or after January 1, 2007. In the notes of the fiscal year 2007, Fresenius Group added Note 29, Supplementary information on capital management, to apply the amendments.

In November 2006, the IASB issued **IFRS 8** (Operating Segments) which replaces IAS 14 (Segment Reporting). IFRS 8 requires an entity to provide certain information about its operating segments in its annual and interim financial statements. Operating segments are determined under IFRS 8 using the financial information provided to and evaluated by the chief operating decision maker for the purpose of allocating the entity's resources and evaluating the entity's performance. A reportable segment may include one or more operating segments. However, certain criteria must be met to include more than one operating segment in a reportable segment. IFRS 8 requires the disclosure of specific financial information (e. g. profit or loss and total assets) for each reportable segment as well as a reconciliation of certain reportable segment information (e. g. total reportable segment revenues) to the corresponding amount in the entity's financial statements. IFRS 8 requires further disclosures as well, such as information about the revenues generated by an entity's products or services and information about its application of IFRS 8 (e. g. how did the entity determines its operating segments). IFRS 8 is effective for fiscal years beginning on or after January 1, 2009. The Fresenius Group's segment reporting meets the requirements of IFRS 8.

In November 2006, the IFRIC issued **IFRIC Interpretation 11** (IFRS 2 – Group and Treasury Share Transactions) (IFRIC 11). The interpretation addresses how to apply IFRS 2 to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity of the same group. The interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. The interpretation also provides guidance on whether share-based payment arrangements should be accounted for as cash-settled or equity-settled in the entity's financial statements, if equity instruments of the parent company are granted. IFRIC 11 shall be applied for fiscal years beginning on or after March 1, 2007. The Fresenius Group already meets the requirements of IFRIC 11.

dd) New accounting standards

The IASB or IFRIC issued the following for the Fresenius Group relevant new standards and interpretations, which are mandatory for fiscal years commencing on or after January 1, 2008 and are not adopted earlier by the Fresenius Group.

- Amendments to IFRS 3 (Business Combinations)
- Amendments to IAS 1 (Presentation of Financial Statements: A revised Presentation)
- Amendments to IAS 23 (Borrowing Costs)
- Amendments to IAS 27 (Consolidated and Separate Financial Statements)
- IFRIC 14 (IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)

In March 2007, the IASB issued an amendment to **IAS 23** (Borrowing Costs). The key amendment to IAS 23 is related to the removal of the option to immediately recognize borrowing costs in the income statement which are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs should be capitalized as part of the acquisition costs of the qualifying asset. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. As the Fresenius Group already capitalizes borrowing costs in accordance with the effective IAS 23, the requirements of the amendment to IAS 23 are already met.

In July 2007, the IFRIC issued **IFRIC Interpretation 14** (IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) (IFRIC 14). IFRIC 14 provides general guidance on how to assess the limit in IAS 19 (Employee Benefits) on the amount of the surplus that can be recognized as an asset (defined benefit asset). It also explains how the pensions asset or liability may be affected when there is a statutory or contractual minimum funding requirement. The interpretation will standardize practice and ensure that entities recognize an asset in relation to a surplus on a consistent basis. No additional liability needs to be recognized by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. The interpretation is mandatory for fiscal years beginning on or after January 1, 2008. The Fresenius Group adopted this standard as of January 1, 2008 and ist still analyzing its impact on the Group’s consolidated financial statements.

In September 2007, the IASB issued a revised version of **IAS 1** (Presentation of Financial Statements), that is aimed at improving financial statement users' ability to analyze and compare information. In general, IAS 1 sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The main changes are to require that an entity must present all non-owner changes in equity either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). The revised IAS 1 is effective for fiscal years beginning on or after January 1, 2009. The Fresenius Group is currently analyzing the potential impact of the revised standard, if any, on the Group’s consolidated financial statements.

In January 2008, the IASB issued an amendment to **IAS 27** (Consolidated and Separate Financial Statements). The revised Standard requires to derecognize all assets and liabilities when control is lost and to remeasure any retained interests to fair value. It also requires that the impact of all transactions between controlling and non-controlling shareholders, which do not involve a loss of control, must be recognized directly in the equity.

Also in January 2008, the IASB issued an amendment to **IFRS 3** (Business Combinations). The amendment requires, among others, that any contingent consideration payable must be measured at fair value at the date of acquisition. Subsequent changes to the value of this measurement are generally recognized in profit and loss. Other changes include that costs incurred in an acquisition are generally expensed as incurred and will therefore affect profit or loss.

Both, revised IAS 27 and revised IFRS 3, are mandatory for accounting periods beginning on or after July 1, 2009. In the case of IFRS 3, this will apply to business combinations in those periods. Early adoption is permitted but depending on certain requirements. The Fresenius Group is currently evaluating the impact on its consolidated financial statements.

The endorsements of the amendments to IFRS 3, IAS 1, IAS 27 and IAS 23 as well as of IFRIC 14 by the EU Commission are still outstanding.

V. CRITICAL ACCOUNTING POLICIES

In the opinion of the Management of the Fresenius Group, the following accounting policies and topics are critical for the consolidated financial statements in the present economic environment. The influences and judgements as well as the uncertainties which affect them are also important factors to be considered when looking at present and future operating earnings of the Fresenius Group.

a) Recoverability of goodwill and intangible assets with indefinite useful lives

Fresenius Group's intangible assets, including goodwill, tradenames and management contracts are a main part of the total assets. At December 31, 2007 and December 31, 2006, the carrying amount of goodwill and non-amortizable intangible assets with indefinite useful lives was € 7,410 million and € 7,469 million, respectively, which represented 48 % and 50 %, respectively, of total assets.

In accordance with IFRS 3 (Business Combinations), an impairment test of goodwill and non-amortizable intangible assets with indefinite useful lives is performed at least once a year, or if events occur or circumstances change that would indicate the carrying amount might be impaired.

To comply with the regulations of IFRS 3 and determine possible impairments of these assets, the fair value of the CGUs is compared to the CGUs' carrying amount. The fair value of each CGU is estimated using estimated future cash flows for the unit discounted by a weighted-average cost of capital (WACC) specific to that CGU. Estimating the discounted future cash flows involves significant assumptions, especially regarding future reimbursement rates and sales prices, number of treatments, sales volumes and costs. In determining discounted cash flows, the Fresenius Group utilizes for every CGU its three-year budget, projections for years four to ten and a corresponding growth rate for all remaining years. These growth rates are 0 % to 4 % for Fresenius Medical Care, 2 % for Fresenius Kabi and 1 % for Fresenius ProServe. This discount factor is determined by the WACC of the respective CGU. The Fresenius Medical Care's WACC consists of a basic rate of 7.34 % for 2007. This basic rate is then adjusted by a country specific risk rate within each CGU for determining the CGU's fair value. In 2007, this rate ranged from 0 % to 7 %. In the business segments Fresenius ProServe and Fresenius Kabi, the WACC was 7.57 %, country specific adjustments did not occur. If the fair value of the CGU is less than its carrying amount, the difference is recorded as an impairment of the fair value of the goodwill at first. An increase of the WACC by 0.5 % would not have resulted in the recognition of an impairment loss in the fiscal year 2007.

A prolonged downturn in the health care industry with lower than expected increases in reimbursement rates and/or higher than expected costs for providing health care services could adversely affect the estimated future cash flows of certain countries or segments. Future adverse changes in a reporting unit's economic environment could affect the discount rate. A decrease in the estimated future cash flows and/or a decline in the reporting unit`s economic environment could result in impairment charges to goodwill and other intangible assets with indefinite lives which could materially and adversely affect the Group's future operating results.

b) Legal contingencies

The Fresenius Group is involved in several legal matters arising from the ordinary course of its business. The outcome of these matters may have a material effect on the financial position, results of operations or cash flows of the Fresenius Group. For details, please see Note 27, Commitments and contingent liabilities.

The Fresenius Group regularly analyzes current information about such claims for probable losses and provides accruals for such matters, including estimated expenses for legal services, as appropriate. The Fresenius Group utilizes its internal legal department as well as external resources for these assessments. In making the decision regarding the need for a loss accrual, the Fresenius Group considers the degree of probability of an unfavorable outcome and its ability to make a reasonable estimate of the amount of loss.

The filing of a suit or formal assertion of a claim, or the disclosure of any such suit or assertion, does not necessarily indicate that an accrual of a loss is appropriate.

c) Allowance for doubtful accounts

Trade accounts receivable are a significant asset and the allowance for doubtful accounts is a significant estimate made by the Management. Trade accounts receivable were € 2,159 million and € 2,088 million in 2007 and 2006, respectively, net of allowance. Approximately two thirds of receivables derive from the business segment Fresenius Medical Care and mainly relate to the dialysis care business in North America.

The major debtors or debtor groups of trade accounts receivable were US Medicare and Medicaid health care programs with 13 % as well as private insurers in the US with 17 % at December 31, 2007. Other than that, the Fresenius Group has no significant risk concentration, due to its international and heterogenous customer structure.

The allowance for doubtful accounts was € 223 million and € 218 million as of December 31, 2007 and December 31, 2006, respectively.

Sales are invoiced at amounts estimated to be receivable under reimbursement arrangements with third party payors. Estimates for the allowance for doubtful accounts are mainly based on historic collection experience, taking into account the aging of accounts receivable and the contract partners. The Fresenius Group believes that these analyses result in a well-founded estimate of allowances for doubtful accounts. From time to time, the Fresenius Group reviews changes in collection experience to ensure the appropriateness of the allowances.

Deterioration in the ageing of receivables and collection difficulties could require that Fresenius Group increases the estimates of allowances for doubtful accounts. Additional expenses for uncollectible receivables could have a significant negative impact on future operating results.

d) Self-insurance programs

Under the insurance programs for professional, product and general liability, auto liability and worker's compensation claims, the largest subsidiary of the Fresenius Group, located in North America, is partially self-insured for professional liability claims. For further details regarding the accounting policies for self-insurance programs, please see Note 1.IV.y, Summary of significant accounting policies.

2. ACQUISITIONS AND DIVESTITURES

ACQUISITIONS AND DIVESTITURES

The Fresenius Group made acquisitions of € 613 million and € 3,714 million in 2007 and 2006, respectively. Of this amount, € 443 million were paid in cash and € 170 million were assumed obligations in 2007.

Fresenius Medical Care made acquisitions of € 257 million in 2007. The main acquisition took place on November 26, 2007, as Fresenius Medical Care completed the acquisition of all of the common stock of Renal Solutions, Inc., (RSI), an Indiana corporation with principal offices in Warrendale, Pennsylvania, United States. The RSI acquisition agreement provides for total consideration of up to US$ 204 million, consisting of US$ 20 million, previously advanced to RSI in the form of a loan, US$ 100 million paid at closing, US$ 60 million payable after the first year which was recorded as a liability at closing, US$ 3 million receivable related to a working capital adjustment and up to US$ 30 million in milestone payments over the next three years, contingent upon the achievement of certain performance criteria. Fresenius Medical Care recorded a liability of US$ 27.4 million representing the net present value of the US$ 30 million milestone payments as it was deemed beyond reasonable doubt that the future performance criteria will be achieved. Furthermore, acquisitions of € 108 million are mainly attributable to the purchase of dialysis centers.

Fresenius Medical Care sold the perfusion business unit of Fresenius Medical Care Extracorporeal Alliance (FMCEA) during the second quarter of 2007. In 2006, FMCEA's perfusion business contributed revenue of approximately € 83 million. The US perfusion business was deconsolidated effective May 9, 2007.

In 2006, acquisitions of Fresenius Medical Care in an amount of € 3,561 million related mainly to the purchase of Renal Care Group, Inc. (RCG), a Delaware corporation with principal offices in Nashville, Tennessee, United States. On March 31, 2006, the acquisition was completed for an all cash purchase price, net of cash acquired, of US$ 4,158 million for all of the outstanding common stock and the retirement of RCG stock options. The purchase price included the concurrent repayment of US$ 658 million indebtedness of RCG. The operations of RCG are included in Fresenius Group's consolidated statements of income and cash flows from April 1, 2006; therefore, the results of 2007 are not comparable with the results of 2006.

On November 14, 2006, Fresenius Medical Care acquired the worldwide rights to the PhosLo® phosphate binder product business and its related assets of Nabi Biopharmaceuticals, Inc. PhosLo® is an oral application calcium acetate phosphate binder for treatment of hyperphosphatemia primarily in end-stage renal disease patients. Fresenius Medical Care paid cash of US$ 65.3 million including related direct costs of US$ 0.3 million plus a US$ 8 million milestone payment in December 2006 and a US$ 2.5 million milestone payment in 2007. An additional milestone payment of US$ 10.5 million will be paid over the next two to three years, contingent upon the achievement of certain performance criteria. Included is an amount of US$ 8.7 million which is already considered as purchase price, because the payment is very likely. The purchase price was allocated to technology with an estimated useful live of 15 years (US$ 64.8 million), and in-process research and development project (US$ 2.8 million) which is immediately expensed, goodwill (US$ 16 million) and other net assets (US$ 0.9 million).

In connection with the transaction, Fresenius Medical Care also acquired worldwide rights to a new product formulation currently under development, which Fresenius Medical Care expects will be submitted for approval in the United States during 2009. Following the successful launch of this new product formulation, Fresenius Medical Care will pay Nabi Biopharmaceuticals, Inc. royalties on sales of the new product formulation commencing upon the first commercialization of the new product and continuing until November 13, 2016. Total consideration, consisting of initial payment, milestone payments and royalties will not exceed US$ 150 million.

In 2007, Fresenius Kabi spent € 178 million on acquisitions mainly related to the acquisition of Nestlé's enteral nutrition businesses in France (Novartis Nutrition S.A.S.) and in Spain (Nestlé España S.A.), the artificial colloid product business of Kyorin Pharmaceuticals Co. Ltd., Japan, the purchase of the remaining shares in Pharmatel Fresenius Kabi Pty Ltd., Australia, as well as the acquisition of all shares of Laboratorios Filaxis S.A., Argentina. In December 2007, Fresenius Kabi has reached an agreement to acquire Laboratorio Sanderson S.A., Chile, and Ribbon S.r.L., Italy. Both acquisitions were closed in January 2008.

In 2006, Fresenius Kabi made acquisitions of € 14 million, mainly referring to subsequent costs for the acquisition of Endomed Laboratório Farmacéutico Ltda., Brazil, as well as the take over of a distributor in South Africa.

In 2007, Fresenius ProServe spent € 175 million on acquisitions mainly related to the acquisition of the remaining 40 % of the shares of HUMAINE Kliniken GmbH (HUMAINE), Germany, and the acquisition of a majority stake of 75 % in the Krefeld Municipal Hospitals, Germany, by HELIOS Kliniken GmbH (HELIOS).

In the first quarter of 2007, Fresenius ProServe closed the divestiture of its subsidiary Pharmaplan GmbH, Germany, to NNE A/S, Denmark. Furthermore, Fresenius ProServe sold its subsidiary Pharmatec GmbH, Germany, to Robert Bosch GmbH, Germany. This transaction was completed on June 30, 2007.

Fresenius ProServe made acquisitions in an amount of € 139 million, which mainly referred to the acquisition of 60 % of the stakes in HUMAINE by HELIOS and additional stakes in HELIOS in 2006. Since the beginning of the third quarter of 2006, HUMAINE has been consolidated.

In the fourth quarter of 2006, Fresenius Biotech signed a contract to acquire additional shares of Trion Pharma GmbH, Germany in an amount of € 9 million. Contingent upon the achievement of certain performance criteria, additional contractual milestone payments in a maximum amount of € 14 million have been agreed. The acquisition was closed in the first quarter of 2007.

IMPACTS ON THE FRESENIUS GROUP'S CONSOLIDATED FINANCIAL STATEMENTS RESULTING FROM ACQUISITIONS

In the fiscal year 2007, all acquisitions have been accounted for applying the purchase method and accordingly have been consolidated starting with the date of acquisition. Each single acquisition is not material. The excess of the total acquisition costs over the fair value of the net assets acquired was € 579 million and € 2,811 million in 2007 and 2006, respectively.

The purchase price allocations are not yet finalized for all acquisitions. Based on preliminary purchase price allocations, the recognized goodwill was € 487 million and the other intangible assets were € 92 million. Of this goodwill, € 210 million is attributable to the acquisitions of Fresenius Medical Care, € 155 million to Fresenius Kabi's acquisitions and € 122 million to Fresenius ProServe's acquisitions.

The acquisitions completed in 2007 or included in the consolidated statements for the first time for a full year, contributed the following amounts to the development of sales and earnings:

in million €	2007
Sales	538
EBITDA	97
EBIT	77
Net interest	-51
Net income	5

The acquisitions increased the total assets of the Fresenius Group by € 607 million.

NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

3. SALES

Sales by activity were as follows:

in million €	2007	2006
Sales of services	7,325	7,017
Sales of products and related goods	3,787	3,426
Sales from long-term production contracts	278	333
Other sales	1	–
Sales	**11,391**	10,776

A sales analysis by business segment and region is shown in the segment information on pages 56 to 59.

4. COST OF SALES

Cost of sales comprised the following:

in million €	2007	2006
Costs of services	5,513	5,241
Manufacturing cost of products and related goods	1,948	1,829
Cost of long-term production contracts	226	269
Other cost of sales	–	–
Cost of sales	**7,687**	7,339

5. COST OF MATERIALS

Cost of materials comprised cost of raw materials, supplies and purchased components and of purchased services as follows:

in million €	2007	2006
Costs of raw materials, supplies and purchased components	3,266	3,250
Depreciation of raw materials, supplies and purchased components	4	3
Reversals of write-downs of raw materials, supplies and purchased components	–	-3
Cost of purchased services	503	459
Cost of materials	**3,773**	3,709

6. PERSONNEL EXPENSES

Cost of sales, selling, general and administrative expenses and expenses on research and development included personnel expenses of € 4,044 million and € 3,810 million in 2007 and 2006, respectively.

Personnel expenses comprised the following:

in million €	2007	2006
Wages and salaries	3,246	3,085
Social security contributions, cost of retirement pensions and social assistance	798	725
thereof retirement pensions	100	90
Personnel expenses	**4,044**	3,810

The Fresenius Group's annual average number of employees by function is shown below:

	2007	2006
Production and service	86,898	79,025
Administration	12,965	12,922
Sales and marketing	7,429	6,852
Research and development	970	888
Total employees (per capita)	**108,262**	99,687

7. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of € 182 million (2006: € 166 million) included expenditure for research and non-capitalizable development costs as well as depreciation and amortization expenses referring to capitalized development costs of € 5 million (2006: € 4 million).

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses were € 467 million (2006: € 432 million) and mainly included expenditures for sales personnel of € 223 million (2006: € 209 million).

General and administrative expenses amounted to € 1,408 million (2006: € 1,396 million) and are related to expenditures for administrative functions not attributable to research and development, production or selling.

9. NET INTEREST

The net interest expenses of € 368 million included interest expenses of € 395 million and interest income of € 27 million. Interest expenses resulted mainly from the Fresenius Group's financial liabilities.

10. TAXES

INCOME TAXES

Earnings before income taxes and minority interest was attributable to the following geographic regions:

in million €	2007	2006
Germany	277	191
International	1,002	857
Total	**1,279**	1,048

Income tax expenses (benefits) for 2007 and 2006 consisted of the following:

in million €	Germany	International	2007 Total	Germany	International	2006 Total
Current taxes	117	325	442	119	218	337
Deferred taxes	12	15	27	-27	103	76
Income taxes	**129**	**340**	**469**	92	321	413

In 2007 and 2006, Fresenius SE was subject to German federal corporation income tax at a base rate of 25 % plus a solidarity surcharge of 5.5 % on federal corporation taxes payable.

The German Business Tax Reform Act (Unternehmensteuerreformgesetz 2008) was enacted in the third quarter of 2007 resulting in a reduction of the corporate income tax rate from 25 % to 15 % for German companies. This reduction together with technical changes to trade tax rules will reduce Fresenius Group's German entities' combined corporate income tax rate effective as of January 1, 2008. Deferred tax assets and liabilities for German entities which will be realized in 2008 and beyond were revalued to reflect the new enacted tax rate. The revaluation of deferred tax assets and liabilities resulted in deferred tax expenses of € 4 million which have been included in operations for the year 2007.

A reconciliation between the expected and actual income tax expense is shown on the following page. The expected corporate income tax expense is computed by applying the German corporation tax rate (including the solidarity surcharge) and the effective trade tax rate on income before income taxes and minority interest. The respective combined tax rates were 38.05 % for the fiscal year 2007 and 37.36 % for the fiscal year 2006.

in million €	2007	2006
Computed "expected" income tax expense	487	391
Increase (reduction) in income taxes resulting from:		
Items not recognized for tax purposes	8	18
Foreign tax rate differential	-35	-25
Tax-free income	-38	-26
Taxes for prior years	41	47
Taxes in connection with divestitures	0	23
Change of German tax rate	4	0
Other	2	-15
Income tax	**469**	413
Effective tax rate	36.7 %	39.4 %

DEFERRED TAXES

The tax effects of the temporary differences that gave rise to deferred tax assets and liabilities at December 31 are presented below:

in million €	2007	2006
Deferred tax assets		
Accounts receivable	35	36
Inventories	47	39
Other current assets	4	–
Other non-current assets	49	60
Accrued expenses	241	211
Other short-term liabilities	20	17
Other liabilities	12	21
Benefit obligations	17	17
Losses carried forward from prior years	55	67
Deferred tax assets	**480**	468
Deferred tax liabilities		
Accounts receivable	11	10
Inventories	8	11
Other current assets	4	–
Other non-current assets	336	297
Accrued expenses	27	58
Other short-term liabilities	16	32
Other liabilities	15	34
Deferred tax liabilities	**417**	442
Accumulated deferred taxes	**63**	26

In the balance sheet, the accumulated amounts of deferred tax assets and liabilities are included as follows:

in million €	2007	2006
Deferred tax assets	389	384
Deferred tax liabilities	326	358
Accumulated deferred taxes	63	26

As of December 31, 2007 Fresenius Medical Care has not recognized a deferred tax liability on approximately € 1.1 billion of undistributed earnings of its foreign subsidiaries, because those earnings are intended to be indefinitely reinvested.

NET OPERATING LOSSES

The expiration of net operating losses is as follows:

for the fiscal years	in million €
2008	13
2009	6
2010	4
2011	9
2012	21
2013	10
2014	11
2015	11
2016	7
2017	9
Thereafter	10
Total	**111**

The total remaining operating losses of € 288 million can mainly be carried forward for an unlimited period.

In assessing the realizability of deferred tax assets, the Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Management of Fresenius Group believes it is more likely than not that the Fresenius Group will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2007.

TAX AUDITS

Fresenius SE and its subsidiaries are subject to tax audits on a regular basis.

In Germany, the tax audit for the years 1998 until 2001 has substantially been finalized and the results of this tax audit are sufficiently recognized in the financial statements as of December 31, 2006. The fiscal years 2002 to 2005 are currently under audit. With respect to HELIOS-Kliniken-Group, the years 2001 to 2004 are currently under audit. For the Group, all further fiscal years are open to tax audits. Fresenius Medical Care filed a lawsuit against the decision of the tax authority regarding the disallowance of certain deductions taken for fiscal year 1997.

In the United States, except for refund claims Fresenius Medical Care has filed relative to the disallowance of tax deductions with respect to certain civil settlement payments for 2000 and 2001, the federal tax audit for the years 1999 through 2001 is completed. The tax has been paid and all results are recognized in the consolidated financial statements as of December 31, 2006. The Federal tax audit for the years 2002 through 2004 has been completed and the Internal Revenue Service has issued its report. The audit report includes disallowance of a material amount of deductions taken during the audit period for interest expense related to intercompany mandatorily redeemable preferred securities. Fresenius Medical Care has filed a protest over the disallowed deductions and will avail itself of all remedies. An adverse determination with respect to any of the disputed disallowances could have a material adverse effect on Fresenius Group's cash flows, tax expenses, net income and earnings per share. Fiscal years 2005 and 2006 are currently under audit. There are a number of state audits in progress and various years are open to audit in other states. All expected results have been recognized in the consolidated financial statements.

Subsidiaries of Fresenius SE in a number of countries outside of Germany and the United States are also subject to tax audits. The Fresenius Group estimates that the tax effects of such audits are not material to the consolidated financial statements.

11. EARNINGS PER SHARE

The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations and shows the basic and fully diluted earnings per ordinary and preference share, retroactively considering the share split of Fresenius SE (formerly: Fresenius AG) entered into the commercial register on January 24, 2007, for the years ending December 31.

in million €, except amounts per share (€)	2007	2006
Numerators		
Net income	**422**	330
less preference on preference shares	**1**	1
less effect from dilution due to Fresenius Medical Care shares	**1**	1
Income available to all classes of shares	**420**	328
Denominators (number of shares)		
Weighted-average number of ordinary shares outstanding	**77,394,080**	76,503,006
Weighted-average number of preference shares outstanding	**77,394,080**	76,503,006
Weighted-average number of shares outstanding of all classes	**154,788,160**	153,006,012
Potentially dilutive ordinary shares	**792,851**	758,400
Potentially dilutive preference shares	**792,851**	758,400
Weighted-average number of shares outstanding of all classes assuming dilution	**156,373,862**	154,522,812
Weighted-average number of ordinary shares outstanding assuming dilution	**78,186,931**	77,261,406
Weighted-average number of preference shares outstanding assuming dilution	**78,186,931**	77,261,406
Basic earnings per ordinary share	**2.72**	2.15
Preference per preference share	**0.01**	0.01
Basic earnings per preference share	**2.73**	2.16
Fully diluted earnings per ordinary share	**2.69**	2.12
Preference per preference share	**0.01**	0.01
Fully diluted earnings per preference share	**2.70**	2.13

The owners of preference shares are entitled to a preference of € 0.01 per bearer preference share per fiscal year.

NOTES ON THE CONSOLIDATED BALANCE SHEET

12. CASH AND CASH EQUIVALENTS

As of December 31, cash and cash equivalents were as follows:

in million €	2007	2006
Cash	349	259
Securities (with a maturity of up to 90 days)	12	2
Total cash and cash equivalents	361	261

As of December 31, 2007 and December 31, 2006, committed funds of € 65 million and € 32 million, respectively, were included in cash and cash equivalents.

13. TRADE ACCOUNTS RECEIVABLE

As of December 31, trade accounts receivable were as follows:

in million €	2007	2006
Trade accounts receivable	2,382	2,306
less allowance for doubtful accounts	223	218
Trade accounts receivable, net	2,159	2,088

All trade accounts receivable are due within one year.

The following table shows the development of the allowance for doubtful accounts during the fiscal year:

in million €	2007	2006
Allowance for doubtful accounts at the beginning of the year	218	200
Change in valuation allowances as recorded in the consolidated statement of income	152	155
Write-offs and recoveries of amounts previously written-off	-132	-119
Foreign currency translation	-15	-18
Allowance for doubtful accounts at the end of the year	223	218

The following table shows the ageing analysis of trade accounts receivable and their allowance for doubtful accounts:

in million €	not overdue	up to 3 months overdue	3 to 6 months overdue	6 to 12 months overdue	more than 12 months overdue	**Total**
Trade accounts receivable	1,315	463	182	168	254	**2,382**
less allowance for doubtful accounts	12	18	23	35	135	**223**
Trade accounts receivable, net	1,303	445	159	133	119	**2,159**

14. INVENTORIES

As of December 31, inventories consisted of the following:

in million €	**2007**	2006
Raw materials and purchased components	**209**	191
Work in process	**129**	103
Finished goods	**579**	512
less reserves	**42**	45
Inventories, net	**875**	761

In 2007, no reversals of write-downs of inventory were made (2006: € 3 million).

The companies of the Fresenius Group are obliged to purchase approximately € 288 million of raw materials and purchased components under fixed terms, of which € 192 million was committed at December 31, 2007 for 2008. The terms of these agreements run one to seven years. Advance payments from customers of € 6 million have been offset against inventories.

Inventories as of December 31, 2007 and December 31, 2006 included approximately € 21 million and approximately € 35 million, respectively, of the product Erythropoietin (EPO), which is supplied by a single source supplier in the United States. Delays, stoppages, or interruptions in the supply of EPO could adversely affect the operating results of Fresenius Medical Care. In October 2006, Fresenius Medical Care entered into a five-year exclusive sourcing and supply agreement with its EPO supplier. Revenues from EPO accounted for approximately 8 % and 9 % of total sales of the Fresenius Group in 2007 and 2006, respectively.

15. PREPAID EXPENSES AND OTHER CURRENT AND NON-CURRENT ASSETS

As of December 31, prepaid expenses and other current and non-current assets comprised the following:

in million €	2007	2007 thereof short-term	2006	2006 thereof short-term
Accounts receivable resulting from German "Krankenhausfinanzierungsgesetz"	**150**	**120**	220	160
Tax receivables	**116**	**113**	126	124
Prepaid expenses	**77**	**16**	74	13
Derivative financial instruments	**18**	**17**	64	10
Investments and long-term loans	**55**	**0**	54	0
Re-insurance claims	**29**	**0**	23	0
Advances made	**20**	**20**	17	17
Accounts receivable from management contracts in clinics	**10**	**10**	10	10
Other assets	**433**	**314**	537	403
Prepaid expenses and other assets, gross	**908**	**610**	1,125	737
less allowances	**11**	**7**	8	7
Prepaid expenses and other assets, net	**897**	**603**	1,117	730

The receivables resulting from the German "Krankenhausfinanzierungsgesetz" primarily contain approved but not yet received earmarked subsidies of the Fresenius Helios operations. The approval is evidenced in a letter written by the granting authorities that Fresenius Helios has already received.

Depreciations on other non-current assets in an amount of € 5 million and € 6 million were recognized in the fiscal years 2007 and 2006, respectively. In 2007 as well as in 2006, there were no reclassifications to other non-current assets.

16. PROPERTY, PLANT AND EQUIPMENT

As of December 31, the acquisition and manufacturing costs as well as accumulated depreciation of property, plant and equipment consisted of the following:

ACQUISITION AND MANUFACTURING COSTS

in million €	As of January 1, 2007	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As of December 31, 2007**
Land and land facilities	171	-1	0	9	-9	2	**168**
Buildings and improvements	1,681	-80	59	170	195	73	**1,952**
Machinery and equipment	2,182	-96	39	297	118	178	**2,362**
Machinery, equipment and rental equipment under capital leases	132	0	0	6	1	5	**134**
Construction in progress	412	-13	3	217	-314	5	**300**
Property, plant and equipment	4,578	-190	101	699	-9	263	**4,916**

DEPRECIATION

in million €	As of January 1, 2007	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As of December 31, 2007**
Land and land facilities	0	0	0	2	0	0	**2**
Buildings and improvements	551	-33	0	130	0	54	**594**
Machinery and equipment	1,259	-49	0	243	0	163	**1,290**
Machinery, equipment and rental equipment under capital leases	52	1	0	8	0	5	**56**
Construction in progress	1	0	0	0	0	0	**1**
Property, plant and equipment	1,863	-81	0	383	0	222	**1,943**

ACQUISITION AND MANUFACTURING COSTS

in million €	As of January 1, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As of December 31, 2006**
Land and land facilities	166	-3	9	3	-1	3	**171**
Buildings and improvements	1,525	-67	149	90	50	66	**1,681**
Machinery and equipment	2,044	-82	96	229	41	146	**2,182**
Machinery, equipment and rental equipment under capital leases	135	-1	6	5	-4	9	**132**
Construction in progress	257	-14	13	263	-98	9	**412**
Property, plant and equipment	4,127	-167	273	590	-12	233	**4,578**

DEPRECIATION

in million €	As of January 1, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As of December 31, 2006**
Land and land facilities	0	0	0	0	0	0	**0**
Buildings and improvements	504	-29	0	112	2	38	**551**
Machinery and equipment	1,211	-39	0	231	-6	138	**1,259**
Machinery, equipment and rental equipment under capital leases	52	0	0	8	-2	6	**52**
Construction in progress	1	0	0	0	0	0	**1**
Property, plant and equipment	1,768	-68	0	351	-6	182	**1,863**

CARRYING AMOUNTS

in million €	**December 31, 2007**	December 31, 2006
Land and land facilities	**166**	171
Buildings and improvements	**1,358**	1,130
Machinery and equipment	**1,072**	923
Machinery, equipment and rental equipment under capital leases	**78**	80
Construction in progress	**299**	411
Property, plant and equipment	**2,973**	2,715

Depreciation on property, plant and equipment for the years 2007 and 2006 was € 383 million and € 351 million, respectively. They are allocated within cost of sales, selling, general and administrative expenses and research and development expenses, depending upon the area in which the asset is used.

LEASING

Machinery and equipment as of December 31, 2007 and 2006 included peritoneal dialysis cycler machines which Fresenius Medical Care leases to customers with end-stage renal disease on a month-to-month basis and hemodialysis machines which Fresenius Medical Care leases to physicians under operating leases in an amount of € 187 million and € 142 million, respectively.

To a lesser extent, property, plant and equipment are also leased for the treatment of patients by other business segments.

For details of minimum lease payments see Note 20, Debt and liabilities from capital lease obligations.

17. GOODWILL AND OTHER INTANGIBLE ASSETS

As of December 31, the acquisition cost and accumulated amortization of intangible assets consisted of the following:

ACQUISITION COST

in million €	As of January 1, 2007	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As of December 31, 2007**
Goodwill	7,123	-527	402	85	15	1	**7,097**
Tradenames	185	-17	0	0	0	0	**168**
Non-compete agreements	154	-15	5	0	0	0	**144**
Technology	49	-7	25	1	0	0	**68**
Capitalized development costs	34	-1	2	7	0	1	**41**
Other	406	-33	24	35	-7	19	**406**
Goodwill and other intangible assets	7,951	-600	458	128	8	21	**7,924**

AMORTIZATION

in million €	As of January 1, 2007	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As of December 31, 2007**
Goodwill	4	0	0	0	0	0	**4**
Tradenames	0	0	0	0	0	0	**0**
Non-compete agreements	90	-10	0	8	0	0	**88**
Technology	0	0	0	3	0	0	**3**
Capitalized development costs	13	0	0	5	0	1	**17**
Other	154	-12	0	23	-1	17	**147**
Goodwill and other intangible assets	261	-22	0	39	-1	18	**259**

ACQUISITION COST

in million €	As of January 1, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As of December 31, 2006**
Goodwill	4,700	-406	2,777	129	16	93	**7,123**
Tradenames	204	-19	0	0	0	0	**185**
Non-compete agreements	0	-8	58	0	107	3	**154**
Technology	0	-3	52	0	0	0	**49**
Capitalized development costs	30	0	0	5	0	1	**34**
Patient relationships	137	-8	0	0	-129	0	**0**
Other	446	-32	20	11	-5	34	**406**
Goodwill and other intangible assets	5,517	-476	2,907	145	-11	131	**7,951**

AMORTIZATION

in million €	As of January 1, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As of December 31, 2006**
Goodwill	4	0	0	0	0	0	**4**
Tradenames	0	0	0	0	0	0	**0**
Non-compete agreements	0	-5	0	13	85	3	**90**
Technology	0	0	0	0	0	0	**0**
Capitalized development costs	10	0	0	4	0	1	**13**
Patient relationships	96	-6	0	0	-90	0	**0**
Other	152	-7	0	32	3	26	**154**
Goodwill and other intangible assets	262	-18	0	49	-2	30	**261**

CARRYING AMOUNTS

in million €	**December 31, 2007**	December 31, 2006
Goodwill	**7,093**	7,119
Tradenames	**168**	185
Non-compete agreements	**56**	64
Technology	**65**	49
Capitalized development costs	**24**	21
Other	**259**	252
Goodwill and other intangible assets	**7,665**	7,690

The split of intangible assets into amortizable and non-amortizable intangible assets is shown in the following table:

AMORTIZABLE INTANGIBLE ASSETS

	December 31, 2007			December 31, 2006		
in million €	**Acquisition cost**	**Accumulated amortization**	**Carrying amount**	Acquisition cost	Accumulated amortization	Carrying amount
Non-compete agreements	**144**	**88**	**56**	154	90	64
Technology	**68**	**3**	**65**	49	0	49
Capitalized development costs	**41**	**17**	**24**	34	13	21
Other	**257**	**147**	**110**	241	154	87
Total	**510**	**255**	**255**	478	257	221

NON-AMORTIZABLE INTANGIBLE ASSETS

in million €	December 31, 2007 Acquisition cost	Accumulated amortization	Carrying amount	December 31, 2006 Acquisition cost	Accumulated amortization	Carrying amount
Tradenames	**168**	**0**	**168**	185	0	185
Management contracts	**149**	**0**	**149**	165	0	165
Goodwill	**7,097**	**4**	**7,093**	7,123	4	7,119
Total	**7,414**	**4**	**7,410**	7,473	4	7,469

Amortization on intangible assets amounted to € 39 million and € 49 million for the years 2007 and 2006, respectively. They are allocated within cost of sales, selling, general and administrative expenses and research and development expenses, depending upon the area in which the asset is used.

Estimated regular amortization expenses of intangible assets for the next five years are shown in the following table:

in million €	2008	2009	2010	2011	2012
Estimated amortization expenses	36	32	29	27	25

The carrying amount of goodwill has developed as follows:

in million €	
Carrying amount as of January 1, 2007	**7,119**
Additions	487
Disposals	-1
Reclassifications	15
Foreign currency translation	-527
Carrying amount as of December 31, 2007	**7,093**

Fresenius Medical Care capitalized development costs in an amount of € 12 million for the fiscal year 2007 (2006: € 13 million). Capitalized development costs are amortized on a straight-line basis over a useful life of 10 years. The amortization expense for the fiscal year 2007 amounted to € 1 million (2006: € 1 million).

In the case of Fresenius Kabi, costs capitalized amounted to € 12 million in the fiscal year 2007 (2006: € 8 million). Amortization is recorded on a straight-line basis over a useful life of 5 years and amounted to € 4 million for the fiscal year 2007 (2006: € 3 million).

18. OTHER ACCRUED EXPENSES

As of December 31, other accrued expenses consisted of the following:

in million €	2007	thereof short-term	2006	thereof short-term
Personnel expenses	**375**	**322**	301	293
Invoices outstanding	**101**	**101**	96	96
Self-insurance programs	**100**	**100**	94	94
Special charge for legal matters	**78**	**78**	87	87
Legal matters, advisory and audit fees	**50**	**50**	49	49
Bonuses and discounts	**48**	**48**	47	47
Warranties and complaints	**29**	**19**	26	22
Commissions	**17**	**17**	20	20
Physician compensation	**11**	**11**	14	14
All other accrued expenses	**294**	**266**	302	219
Other accrued expenses	**1,103**	**1,012**	1,036	941

The following table shows the development of other accrued expenses in the fiscal year:

in million €	As of January 1, 2007	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Utilized	Reversed	As of December 31, 2007
Personnel expenses	301	-18	12	173	44	-122	-15	**375**
Invoices outstanding	96	-1	–	77	–	-57	-14	**101**
Self-insurance programs	94	-10	–	17	0	-1	–	**100**
Special charge for legal matters	87	-9	0	0	0	0	0	**78**
Legal matters, advisory and audit fees	49	-1	–	24	3	-23	-2	**50**
Bonuses and discounts	47	-1	–	49	–	-43	-4	**48**
Warranties and complaints	26	–	1	13	5	-11	-5	**29**
Commissions	20	-1	–	17	0	-17	-2	**17**
Physician compensation	14	-1	0	0	0	-2	0	**11**
All other accrued expenses	302	-4	22	153	-51	-94	-34	**294**
Total	1,036	-46	35	523	1	-370	-76	**1,103**

Accruals for personnel expenses mainly refer to bonus, severance payments, contribution of partial retirement and holiday entitlements.

In 2001, Fresenius Medical Care recorded a US$ 258 million special charge to address legal matters relating to transactions pursuant to the Agreement and Plan of Reorganization dated as of February 4, 1996 by and between W.R. Grace & Co. and Fresenius AG (Merger), estimated liabilities and legal expenses arising in connection with the W.R. Grace & Co. Chapter 11 proceedings (Grace Chapter 11 Proceedings) and the cost of resolving pending litigation and other disputes with certain commercial insurers. During the second quarter of 2003, the court supervising the Grace Chapter 11 Proceedings approved a definitive settlement agreement entered into among Fresenius Medical Care, the committee representing the asbestos creditors and W.R. Grace & Co. Under the settlement agreement, Fresenius Medical Care will pay US$ 115 million (€ 78 million), without interest, upon plan confirmation (see Note 27, Commitments and contingent liabilities). With the exception of the proposed US$ 115 million settlement payment, all other matters included in the special charge have been resolved.

19. OTHER LIABILITIES

As of December 31, other liabilities consisted of the following:

in million €	**2007**	**thereof short-term**	2006	thereof short-term
Accounts payable resulting from German "Krankenhausfinanzierungsgesetz"	**187**	**172**	194	168
Personnel liabilities	**66**	**64**	94	91
Tax liabilities	**99**	**96**	89	86
Interest liabilities	**75**	**75**	64	64
Advance payments from customers	**82**	**57**	63	58
Derivative financial instruments	**34**	**10**	25	13
Accounts receivable credit balance	**28**	**17**	18	13
All other liabilities	**516**	**395**	521	387
Other liabilities	**1,087**	**886**	1,068	880

The payables resulting from the German "Krankenhausfinanzierungsgesetz" primarily contain earmarked subsidies received but not yet spent appropriately by Fresenius Helios. The amount not yet spent appropriately is classified as liability.

Of the total amount of other non-current liabilities € 201 million at December 31, 2007, € 150 million were due between one and five years and € 51 million were due later than five years. The balance sheet line item "long-term accrued expenses and other long-term liabilities" of € 292 million also includes long-term accrued expenses of € 91 million as of December 31, 2007.

20. DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

SHORT-TERM BORROWINGS

Borrowings

Short-term borrowings of € 362 million and € 330 million at December 31, 2007, and 2006, respectively, consisted of € 304 million borrowed by certain subsidiaries of the Fresenius Group under lines of credit with commercial banks and € 58 million outstanding short-term borrowings under the accounts receivable facility described below. The average interest rates on these borrowings (excluding the accounts receivable facility) at December 31, 2007 and 2006 were 5.15 % and 4.45%, respectively.

Accounts receivable facility

Fresenius Medical Care has an asset securitization facility (accounts receivable facility), which is typically renewed in October of each year and was renewed most recently in October 2007. The accounts receivable facility currently provides borrowings up to a maximum of US$ 650 million (€ 442 million). Under the accounts receivable facility, certain receivables are sold to NMC Funding Corp. (NMC Funding), a wholly-owned subsidiary of Fresenius Medical Care. NMC Funding then assigns percentage ownership interests in the accounts receivable to certain bank investors. Under the terms of the accounts receivable facility, NMC Funding retains the right to recall all transferred interests in the accounts receivable assigned to the banks under the facility. As Fresenius Medical Care has the right at any time to recall the then outstanding interests, the receivables remain on the consolidated balance sheet and the proceeds from the transfer of percentage ownership interests are recorded as short-term borrowings.

At December 31, 2007, there were outstanding short-term borrowings under the accounts receivable facility of US$ 85 million (€ 58 million). NMC Funding pays interest to the bank investors, calculated based on the commercial paper rates for the particular tranches selected. The average interest rate at December 31, 2007 was 5.44 %. Annual refinancing fees, which include legal costs and bank fees (if any), are amortized over the term of the facility.

LONG-TERM DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

As of December 31, long-term debt and liabilities from capital lease obligations consisted of the following:

in million €	**2007**	2006
Fresenius Medical Care 2006 Senior Credit Agreement	**2,151**	2,707
Euro Notes	**440**	366
European Investment Bank Agreements	**169**	164
Capital lease obligations	**42**	39
Other	**205**	226
Subtotal	**3,007**	3,502
less current portion	**120**	272
Long-term debt and liabilities from capital lease obligations, less current portion	**2,887**	3,230

Maturities of long-term debt and liabilities from capital lease obligations are shown in the following table:

in million €	up to 1 year	1 to 5 years	more than 5 years
Fresenius Medical Care 2006 Senior Credit Agreement	45	1,848	258
Euro Notes	40	300	100
European Investment Bank Agreements	8	32	129
Capital lease obligations	8	21	13
Other	19	176	10
Long-term debt and liabilities from capital lease obligations	**120**	**2,377**	**510**

Aggregate annual repayments applicable to the above listed long-term debt and liabilities from capital lease obligations for the five years subsequent to December 31, 2007 are:

for the fiscal years	in million €
2008	120
2009	462
2010	141
2011	895
2012	879
Subsequent years	510
Total	**3,007**

Fresenius Medical Care 2006 Senior Credit Agreement

Fresenius Medical Care entered into a US$ 4.6 billion syndicated credit agreement (Fresenius Medical Care 2006 Senior Credit Agreement) with Bank of America, N.A. (BofA); Deutsche Bank AG New York Branch; The Bank of Nova Scotia; Credit Suisse, Cayman Islands Branch; JP Morgan Chase Bank, National Association; and certain other lenders (collectively the Lenders) on March 31, 2006 which replaced a prior credit agreement.

The following table shows the available and outstanding amounts under the Fresenius Medical Care 2006 Senior Credit Agreement at December 31:

	Maximum amount available		Balance outstanding	
in million US$	**2007**	2006	**2007**	2006
Revolving Credit	**1,000**	1,000	**38**	68
Term Loan A	**1,550**	1,760	**1,550**	1,760
Term Loan B	**1,578**	1,737	**1,578**	1,737
Total	**4,128**	4,497	**3,166**	3,565

In addition, at December 31, 2007, US$ 87 million and at December 31, 2006, US$ 85 million were utilized as letters of credit which are not included as part of the balances outstanding at those dates.

The Fresenius Medical Care 2006 Senior Credit Agreement consists of:

- A 5-year US$ 1 billion revolving credit facility (of which up to US$ 250 million is available for letters of credit, up to US$ 300 million is available for borrowings in certain non-US currencies, up to US$ 150 million is available as swing line loans in US dollars, up to US$ 250 million is available as a competitive loan facility and up to US$ 50 million is available as swing line loans in certain non-US currencies, the total of which cannot exceed US$ 1 billion which will be due and payable on March 31, 2011.
- A 5-year term loan facility (Term Loan A) of US$ 1,850 million, also scheduled to mature on March 31, 2011. The Fresenius Medical Care 2006 Senior Credit Agreement requires 19 quarterly payments on Term Loan A of US$ 30 million each that permanently reduce the term loan facility which began June 30, 2006 and continue through December 31, 2010. The remaining amount outstanding is due on March 31, 2011.
- A 7-year term loan facility (Term Loan B) of US$ 1,750 million scheduled to mature on March 31, 2013. The terms of the Fresenius Medical Care 2006 Senior Credit Agreement require 28 quarterly payments on Term Loan B that permanently reduce the term loan facility. The repayment began June 30, 2006. The first 24 quarterly payments will be equal to one quarter of one percent (0.25 %) of the original principal balance outstanding, payments 25 through 28 will be equal to twenty-three

and one half percent (23.5 %) of the original principal balance outstanding with the final payment due on March 31, 2013, subject to an early repayment requirement on March 1, 2011 if the Trust Preferred Securities due June 15, 2011 are not repaid or refinanced or their maturity is not extended prior to that date.

Interest on these facilities will be, at Fresenius Medical Care's option, depending on the interest periods chosen, at a rate equal to either LIBOR plus an applicable margin or the higher of (a) BofA's prime rate or (b) the Federal Funds rate plus 0.5 %, plus an applicable margin.

The applicable margin is variable and depends on Fresenius Medical Care's consolidated leverage ratio which is a ratio of its consolidated funded debt (less up to US$ 30 million cash and cash equivalents) to consolidated EBITDA (as these terms are defined in the Fresenius Medical Care 2006 Senior Credit Agreement).

In addition to scheduled principal payments, indebtedness outstanding under the Fresenius Medical Care 2006 Senior Credit Agreement will be reduced by mandatory prepayments utilizing portions of the net cash proceeds from certain sales of assets, securitization transactions other than Fresenius Medical Care's existing accounts receivable facility, the issuance of subordinated debt other than certain intercompany transactions, certain issuances of equity and excess cash flow.

The obligations under the Fresenius Medical Care 2006 Senior Credit Agreement are secured by pledges of capital stock of certain material subsidiaries in favor of the lenders.

The Fresenius Medical Care 2006 Senior Credit Agreement contains other affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Certain of the covenants limit indebtedness of Fresenius Medical Care and investments by Fresenius Medical Care, and require Fresenius Medical Care to maintain certain financial ratios defined in the agreement. Additionally, the Fresenius Medical Care 2006 Senior Credit Agreement provides for a limitation on dividends and other restricted payments which is US$ 260 million for dividends paid in 2008, and increases in subsequent years. Fresenius Medical Care paid dividends of US$ 188 million (€ 137 million) in May of 2007 which was in compliance with the restrictions set forth in the Fresenius Medical Care 2006 Senior Credit Agreement. In default, the outstanding balance under the Fresenius Medical Care 2006 Senior Credit Agreement becomes immediately due and payable at the option of the Lenders. As of December 31, 2007, Fresenius Medical Care was in compliance with all financial covenants under the Fresenius Medical Care 2006 Senior Credit Agreement.

Fresenius Medical Care incurred fees of approximately US$ 86 million in conjunction with the Fresenius Medical Care 2006 Senior Credit Agreement which are being amortized over the life of this agreement.

On July 2, 2007, Fresenius Medical Care voluntarily repaid portions of the term loans outstanding utilizing a portion of the proceeds from the issuance of senior notes (see Note 21, Senior Notes). Under the terms of the Fresenius Medical Care 2006 Senior Credit Agreement, advance payments on the term loans are applied first against the next four quarterly payments due with any amounts in excess of the four quarterly payments applied on a pro-rata basis against any remaining payments. As a result of the advance payments on the Term Loans, no payments will be made or will be due for either Term Loan A or B until the third quarter of 2008.

In June 2007, the Fresenius Medical Care 2006 Senior Credit Agreement was amended in order to enable Fresenius Medical Care to issue US$ 500 million in Senior Notes (see Note 21, Senior Notes). Furthermore, on January 31, 2008, it was amended to increase certain types of permitted borrowings and to remove all limitations on capital expenditures.

Euro Notes

As of December 31, 2007, Euro Notes (Schuldscheindarlehen) of the Fresenius Group consisted of the following:

	Maturity	Interest rate	Notional amount in million €
Fresenius Finance B.V. 2004/2008	May 18, 2008	variable	**40**
Fresenius Finance B.V. 2007/2012	July 2, 2012	5.51 %	**26**
Fresenius Finance B.V. 2007/2012	July 2, 2012	variable	**74**
Fresenius Finance B.V. 2007/2014	July 2, 2014	5.75 %	**38**
Fresenius Finance B.V. 2007/2014	July 2, 2014	variable	**62**
FMC Finance S.à.r.l. Luxembourg IV 2005/2009	July 27, 2009	4.57 %	**126**
FMC Finance S.à.r.l. Luxembourg IV 2005/2009	July 27, 2009	variable	**74**
Euro Notes			**440**

The book value of the Euro Notes equals the notional amount.

In 2007, Fresenius Finance B.V., a wholly-owned subsidiary of Fresenius SE, issued Euro Notes of € 200 million. The Euro Notes were issued on July 2, 2007 and have five and seven year terms. They are guaranteed by Fresenius SE. The proceeds from the issuance of the Euro Notes were mainly utilized to refinance Euro Notes of € 126 million that were due in 2007 and for repayment of short-term debt.

The Euro Notes of FMC Finance S.à.r.l. Luxembourg IV are guaranteed by FMC-AG & Co. KGaA.

Interest of the floating-rate tranches of the Euro Notes is based on EURIBOR plus applicable margin. For a large portion of these tranches interest rate swaps have been arranged (see Note 28, Financial instruments). Only the floating-rate tranche of the Euro Notes of FMC Finance S.à.r.l. Luxembourg IV in an amount of € 74 million is exposed to the risk of interest rate increases.

European Investment Bank Agreements

Various subsidiaries of the Fresenius Group maintain credit facilities with the European Investment Bank (EIB). The EIB is the not-for-profit long-term lending institution of the European Union and loans funds at favorable rates for the purpose of capital investment and research and development projects. The facilities were granted to refinance certain research and development projects, to invest in expansion and the optimization of existing production facilities in Germany and for the construction of a hospital.

The following table shows the outstanding amounts under the EIB facilities as of December 31, 2007:

	Maximum amount available in million €	Maturity	Balance outstanding	**Book value in million €**
Fresenius SE	96	2013	€ 40 million	**40**
FMC-AG & Co. KGaA	221	2013/2014	US$ 49 million	**33**
HELIOS Kliniken GmbH	96	2019	€ 96 million	**96**
Loans from EIB	**413**			**169**

Repayment of the loan of HELIOS Kliniken GmbH already started in December 2007 and will continue through December 2019 with constant half-yearly payments.

Some advances under these agreements can be denominated in certain foreign currencies including US dollar. The above mentioned loans bear variable interest rates that change quarterly. The US dollar borrowings of Fresenius Medical Care had an interest rate of 4.92 % as of December 31, 2007, the euro borrowings of Fresenius SE and of HELIOS Kliniken GmbH bore an interest rate of 4.93 % as of December 31, 2007. To some extent, the borrowers may opt to convert those interest rates into fixed rates. The loans under these EIB Agreements are secured by bank guarantees and have customary covenants.

Capital lease obligations

Details of capital lease obligations are given below:

in million €	**2007**
Capital lease obligations (minimum lease payments)	**49**
due within one year	9
due between one and five years	25
due later than five years	15
Interest component included in future minimum lease payments	**7**
due within one year	1
due between one and five years	4
due later than five years	2
Present value of capital lease obligations (minimum lease payments)	**42**
due within one year	8
due between one and five years	21
due later than five years	13

CREDIT LINES

In addition to the financial liabilities described before, the Fresenius Group maintains additional credit facilities which have not been utilized, or have only been utilized in part as of reporting date. As of December 31, 2007, the additional financial cushion resulting from unutilized credit facilities was more than € 1.5 billion.

Syndicated credit facilities accounted for € 944 million. This portion comprises the Fresenius Medical Care 2006 Senior Credit Agreement in the amount of US$ 875 million (€ 594 million) and a syndicated credit facility of Fresenius SE in the amount of € 350 million. The latter was arranged with a group of European banks in 2006 and has a term of five years. Furthermore, bilateral facilities of approximately € 620 million were available. They include the above mentioned credit facilities with the EIB and credit facilities which subsidiaries of the Fresenius Group have arranged with commercial banks. These credit facilities are used for general corporate purposes and are usually unsecured.

In addition, Fresenius SE has a commercial paper program under which up to € 250 million in short-term notes can be issued. As of December 31, 2007, no commercial papers were outstanding.

Additional financing of up to US$ 650 million can be provided using the Fresenius Medical Care accounts receivable facility which had been utilized by US$ 85 million as of December 31, 2007.

21. SENIOR NOTES

As of December 31, 2007, Senior Notes of the Fresenius Group consisted of the following:

	Notional amount	Maturity	Interest rate	Book value in million €
Fresenius Finance B.V. 2003/2009	€ 100 million	April 30, 2009	7.50 %	**100**
Fresenius Finance B.V. 2006/2013	€ 500 million	Jan 31, 2013	5.00 %	**500**
Fresenius Finance B.V. 2006/2016	€ 500 million	Jan 31, 2016	5.50 %	**500**
FMC Finance III S.A. 2007/2017	US$ 500 million	July 15, 2017	6⅞ %	**334**
Senior Notes				**1,434**

The Senior Notes of Fresenius Finance B.V. maturing in 2016 may be redeemed at the option of the issuer from January 31, 2011 onwards. The respective redemption prices have already been fixed at the date of issuance in the indentures.

On July 2, 2007, FMC Finance III S.A., a wholly-owned subsidiary of FMC-AG & Co. KGaA, issued US$ 500 million aggregate principal amount of 6⅞ % senior notes due 2017 at a discount resulting in an effective interest rate of 7⅛ %. The Senior Notes are guaranteed on a senior basis jointly and severally by FMC-AG & Co. KGaA and by its subsidiaries Fresenius Medical Care Holdings, Inc. and

Fresenius Medical Care Deutschland GmbH. Fresenius Medical Care may redeem the Senior Notes at any time at 100 % of principal amount plus accrued interest and a premium calculated pursuant to the terms of the indenture. The holders have a right to request that Fresenius Medical Care repurchases the Senior Notes at 101 % of principal amount plus accrued interest upon the occurrence of a change of control followed by a decline in the rating of the Senior Notes. The proceeds, net of discounts, bank fees and other offering related expenses were approximately US$ 484 million, of which US$ 150 million was used to reduce the 5-year term loan facility (Term Loan A) and US$ 150 million to reduce the 7-year term loan facility (Term Loan B) under Fresenius Medical Care's US$ 4.6 billion Fresenius Medical Care 2006 Senior Credit Agreement. The remaining US$ 184 million was applied to the outstanding balance under its short-term accounts receivable facility. The discount is being amortized over the life of the Senior Notes.

All Senior Notes of Fresenius Finance B.V. are guaranteed by Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH. Fresenius SE has agreed to a number of covenants to provide protection to the bondholders, which, under certain circumstances, partly restrict the scope of action of Fresenius SE and its subsidiaries (excluding FMC-AG & Co. KGaA and its subsidiaries). These covenants include, amongst other things, restrictions on further debt that can be raised, the payment of dividends, the volume of capital expenditure, the redemption of subordinated liabilities and the mortgaging or sale of assets. Some of these restrictions are lifted automatically when the rating of Fresenius SE reaches investment grade. In the event of non-compliance with the terms of the Senior Notes, the bondholders (owning in aggregate more than 25 % of the outstanding Senior Notes) are entitled to call the Senior Notes and demand immediate repayments plus interest. As of December 31, 2007, the Fresenius Group was in compliance with all of its covenants.

22. PENSIONS AND SIMILAR OBLIGATIONS

GENERAL

The Fresenius Group recognizes pension costs and related pension liabilities for current and future benefits to qualified current and former employees of the Fresenius Group. Fresenius Group's pension plans are structured differently according to the legal, economic and fiscal circumstances in each country. The Fresenius Group currently has two types of plans, defined benefit and defined contribution plans. In general, plan benefits in defined benefit plans are based on all or a portion of the employees' years of services and final salary. Plan benefits in defined contribution plans are determined by the amount of contribution by the employee and the employer, both of which may be limited by legislation, and the returns earned on the investment of those contributions.

Upon retirement under defined benefit plans, the Fresenius Group is required to pay defined benefits to former employees when the defined benefits become due. Defined benefit plans may be funded or unfunded. The Fresenius Group has funded defined benefit plans in particular in the United States, Norway, the United Kingdom, the Netherlands and Austria. Unfunded defined benefit plans are located in Germany and France.

Actuarial assumptions generally determine benefit obligations under defined benefit plans. The actuarial calculations require the use of estimates. The main factors used in the actuarial calculations affecting the level of the benefit obligations are: assumptions on life expectancy, the discount rate, salary and pension level trends. Under Fresenius Group's funded plans, assets are set aside to meet future payment obligations. An estimated return on the plan assets is recognized as income in the respective period. Actuarial gains and losses are generated when there are variations in the actuarial assumptions and differences between the actual and the estimated return on plan assets for that year. A company's pension liability is impacted by these actuarial gains or losses.

In the case of Fresenius Group's funded plans, the defined benefit obligation is offset against the fair value of plan assets (funded status). A pension liability is recognized in the balance sheet if the defined benefit obligation exceeds the fair value of plan assets plus unrecognized actuarial gains (minus unrecognized actuarial losses) and minus unrecognized past service cost. An asset is recognized and reported under other assets in the balance sheet if the fair value of plan assets exceeds the defined benefit obligation and if the Fresenius Group has a right of reimbursement against the fund or a right to reduce future payments to the fund. Furthermore an asset may arise if the unrecognized actuarial losses and unrecognized past service cost exceed the funded status.

Under defined contribution plans, the Fresenius Group pays defined contributions during the employee's service life which satisfies all obligations of the Fresenius Group to the employee. The Fresenius Group has a main defined contribution plan in North America.

DEFINED BENEFIT PENSION PLANS

At December 31, 2007, the benefit obligation (DBO) of the Fresenius Group amounting to € 498 million (2006: € 553 million) included € 219 million (2006: € 235 million) funded by plan assets and € 282 million (2006: € 268 million) covered by pension provisions. The current portion of the pension liability in an amount of € 9 million is recognized in the balance sheet as short-term accrued expenses and other short-term liabilities. The non-current portion of € 273 million is recorded as pension liability. At December 31, 2007, prepaid pension costs in an amount of € 7 million (2006: € 6 million) related to the North American pension plan and are recorded within other non-current assets.

66 % of the pension liabilities in an amount of € 282 million relate to the "Versorgungsordnung der Fresenius-Unternehmen" established in 1988 (Pension plan 1988), which applies for most of the German entities of the Fresenius Group except Fresenius Helios. The rest of the pension liabilities relates to individual plans from Fresenius ProServe entities in Germany and non-German Group entities.

Plan benefits are generally based on an employee's years of service and final salary. Consistent with predominant practice in Germany, the pension obligations of the German entities of the Fresenius Group are unfunded. The German Pension plan 1988 does not have a separate pension fund.

Fresenius Medical Care Holdings, Inc. (FMCH), a subsidiary of Fresenius Medical Care, has a defined benefit pension plan for its employees in the United States and supplemental executive retirement plans. During the first quarter of 2002, FMCH curtailed these pension plans. Under the curtailment amendment for substantially all employees eligible to participate in the plan, benefits have been frozen as of the curtailment date and no additional defined benefits for future services will be earned. FMCH has retained all employee benefit obligations as of the curtailment date. Each year FMCH contributes at least the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended. There was no minimum funding requirement for FMCH for the defined benefit plan in the year 2007. FMCH voluntarily contributed US$ 1.2 million (€ 0.9 million) during the year 2007. Expected funding for 2008 is US$ 0.9 million (€ 0.6 million).

The Fresenius Group's benefit obligations relating to fully or partly funded pension plans amounted to € 229 million. Benefit obligations relating to unfunded pension plans amounted to € 269 million.

The following table shows the changes in benefit obligations, the changes in plan assets and the funded status of the pension plans. Benefits paid as shown in the changes in benefit obligations represent payments made from both the funded and unfunded plans while the benefits paid as shown in the changes in plan assets include only benefit payments from Fresenius Group's funded benefit plans.

The funded status has developed as follows:

in million €	**2007**	2006
Benefit obligations at the beginning of the year	**553**	571
Changes in entities consolidated	**1**	2
Foreign currency translation	**-21**	-20
Service cost	**17**	18
Past service cost	**2**	0
Interest cost	**27**	26
Contributions by plan participants	**1**	1
Transfer of plan participants	**–**	–
Curtailments/settlements	**-3**	-6
Actuarial losses/gains	**-60**	-19
Benefits paid	**-19**	-13
Divestitures	**0**	-7
Amendments	**–**	0
Benefit obligations at the end of the year	**498**	553
thereof vested	**427**	481
Fair value of plan assets at the beginning of the year	**235**	232
Changes in entities consolidated	**–**	0
Foreign currency translation	**-21**	-18
Actual return on plan assets	**13**	19
Contributions by the employer	**8**	12
Contributions by plan participants	**1**	1
Settlements	**0**	0
Transfers	**–**	-6
Profit on disposal of investments	**1**	0
Benefits paid	**-11**	-5
Fair value of plan assets at the end of the year	**226**	235
Funded status as of December 31	**272**	318

The plan assets are neither used by the employees of the Fresenius Group nor invested in the Fresenius Group.

As of December 31, 2007 and 2006, respectively, the net amount recognized (pension liability less recognized assets) was calculated as follows:

in million €	2007	2006
Funded status	272	318
Unrecognized actuarial loss	-1	-59
Unrecognized past service cost	4	3
Net amount recognized as of December 31	275	262

As of December 31, 2007, the fair value of plan assets relating to the North American pension plan exceeded the corresponding benefit obligations. The resulting amount of € 7 million was recognized as an asset. For all the remaining pension plans of the Fresenius Group the benefit obligations exceeded the fair value of plan assets and resulted in a total amount of € 282 million recognized as a pension liability.

The discount rates for all plans are based upon yields of portfolios of highly rated equity and debt instruments with maturities that mirror the plan's benefit obligation. Fresenius Group's discount rate is the weighted average of these plans based upon their benefit obligations at December 31, 2007.

The following weighted-average assumptions were utilized in determining benefit obligations as of December 31:

in %	2007	2006
Discount rate	5.80	5.02
Rate of compensation increase	3.66	3.75
Rate of pension increase	1.80	1.60

As of December 31, the four-years-analysis is as follows:

in million €	2007	2006	2005	2004
Pension obligation	498	553	571	434
thereof experience adjustments	4	4		
Plan assets	226	235	232	178
thereof experience adjustments	-3	3		
Funded status	272	318	339	256

Defined benefit pension plans' net periodic benefit costs of € 30 million (2006: € 30 million) were comprised of the following components for each of the years ended December, 31:

in million €	**2007**	2006
Components of net periodic benefit cost		
Service cost	**17**	18
Interest cost	**27**	26
Expected return on plan assets	**-16**	-16
Amortization of unrealized actuarial losses, net	**2**	4
Settlement loss	**-1**	-2
Amortization of past service costs	**1**	–
Net periodic benefit cost	**30**	30

Net periodic benefit cost is allocated as personnel expense within cost of sales or selling, general and administrative expenses as well as research and development expenses. The allocation depends upon the area in which the beneficiary is employed.

The following weighted-average assumptions were used in determining net periodic benefit cost for the year ended December 31:

in %	**2007**	2006
Discount rate	**5.02**	4.70
Expected return of plan assets	**7.03**	7.07
Rate of compensation increase	**3.75**	3.50

Changes in the discount factor, inflation and mortality assumptions used for the actuarial computation resulted in actuarial losses in 2007 which increased the fair value of the defined benefit obligation. Unrecognized actuarial losses inside the 10 % corridor for each defined benefit plan amounted to € 1 million (2006: € 59 million).

The following table shows the expected future benefit payments:

for the fiscal years	in million €
2008	15
2009	16
2010	17
2011	18
2012	20
2013 to 2017	125
Total expected benefit payments for the next 10 years	**211**

The Fresenius Group uses December 31, 2007 as the measurement date in determining the funded status of all plans.

Pension liabilities at December 31, 2007 and 2006 related to the following geographical regions:

in million €	2007	2006
Germany	236	214
Europe (excluding Germany)	45	54
North America	0	0
Asia-Pacific	–	0
Latin America	1	0
Africa	0	0
Total pension liabilities	282	268

Approximately two-thirds of the beneficiaries are located in North America, one quarter in Germany and the remainder throughout the rest of Europe and other continents.

Plan investment policy and strategy

For the North America funded plan, Fresenius Group periodically reviews the assumptions for long-term expected return on pension plan assets. As part of the assumptions review, independent consulting actuaries determine a range of reasonable expected investment returns for the pension plan as a whole based on their analysis of expected future returns for each asset class weighted by the allocation of the assets. The range of returns developed relies both on forecasts, which include the actuarial firm's expected long-term rates of return for each significant asset class or economic indicator, and on broad-market historical benchmarks for expected return, correlation, and volatility for each asset class. As a result, the expected rate of return on pension plan assets of the North American pension plan was 7.50 % for the year 2007.

The investment policy, utilizing a target investment allocation of 35.80 % equity and 64.20 % long-term US bonds, considers that there will be a time horizon for invested funds of more than five years. The total portfolio will be measured against a policy index that reflects the asset class benchmarks and the target asset allocation. The plan policy does not allow investments in securities of FMC-AG & Co. KGaA or other related party securities. The performance benchmarks for the separate asset classes include: S & P 500 Index, Russell 2000 Growth Index, MSCI EAFE Index, Lehman U.S. Long Government/Credit bond Index and the HFRI Fund of Funds Index.

The following schedule describes Fresenius Group's allocation for its funded plans.

in %	**Allocation 2007**	Allocation 2006	Target allocation
Categories of plan assets			
Equity securities	**36.20**	40.05	38.63
Debt securities	**60.81**	57.34	59.52
Real estate	**0.41**	1.07	0.74
Other	**2.58**	1.54	1.11
Total	**100.00**	100.00	100.00

The overall expected long-term rate of return on assets of the Fresenius Group amounts to 7.06 % compounded annually. Contributions to plan assets for the fiscal year 2008 are expected to amount to € 4 million.

DEFINED CONTRIBUTION PLANS

Fresenius Group's total expense under defined contribution plans for 2007 was € 20 million (2006: € 18 million). The main part relates to the North American savings plan, which employees of FMCH can join. Employees can deposit up to 75 % of their pay up to an annual maximum of US$ 15,500 if under 50 years old (US$ 20,500 if 50 or over) under this savings plan. Fresenius Medical Care will match 50 % of the employee deposit up to a maximum Company contribution of 3 % of the employee's pay. Fresenius Medical Care's total expense under this defined contribution plan for the years ended December 31, 2007 and 2006 was € 17 million and € 16 million, respectively.

23. TRUST PREFERRED SECURITIES

Fresenius Medical Care issued trust preferred securities through Fresenius Medical Care Capital Trusts, statutory trusts organized under the laws of the State of Delaware, United States. FMC-AG & Co. KGaA owns all of the common securities of these trusts. The sole asset of each trust is a senior subordinated note of FMC-AG & Co. KGaA or a wholly-owned subsidiary of FMC-AG & Co. KGaA. FMC-AG & Co. KGaA, Fresenius Medical Care Deutschland GmbH and Fresenius Medical Care Holdings, Inc. have guaranteed payment and performance of the senior subordinated notes to the respective Fresenius Medical Care Capital Trusts. The trust preferred securities are guaranteed by FMC-AG & Co. KGaA through a series of undertakings by Fresenius Medical Care and Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Deutschland GmbH.

The trust preferred securities entitle the holders to distributions at a fixed annual rate of the stated amount and are mandatorily redeemable after ten years. Earlier redemption at the option of the holders may also occur upon a change of control followed by a rating decline or defined events of default including a failure to pay interest. Upon liquidation of the trusts, the holders of trust preferred securities are entitled to a distribution equal to the stated amount. The trust preferred securities do not hold voting rights in the trust except under limited circumstances.

The indentures governing the notes held by the Fresenius Medical Care Capital Trusts contain affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Some of the covenants limit Fresenius Medical Care's indebtedness and its investments, and require Fresenius Medical Care to maintain certain ratios defined in the agreement. As of December 31, 2007, Fresenius Medical Care was in compliance with all financial covenants under all trust preferred securities agreements.

The trust preferred securities outstanding as of December 31, 2007 and 2006 were as follows:

	Year issued	Stated amount	Interest rate	Mandatory redemption date	**2007 in million €**	2006 in million €
Fresenius Medical Care Capital Trust II	1998	US$ 450 million	$7^7/_8$%	Feb 1, 2008	**301**	330
Fresenius Medical Care Capital Trust III	1998	DM 300 million	$7^3/_8$%	Feb 1, 2008	**154**	154
Fresenius Medical Care Capital Trust IV	2001	US$ 225 million	$7^7/_8$%	Jun 15, 2011	**149**	165
Fresenius Medical Care Capital Trust V	2001	€ 300 million	$7^3/_8$%	Jun 15, 2011	**297**	297
Trust preferred securities					**901**	946

The trust preferred securities of Fresenius Medical Care Capital Trust II und III were due on February 1, 2008 and are therefore classified as a short-term liability and shown as current portion in an amount of € 455 million at December 31, 2007. Fresenius Medical Care used existing credit facilities for the repayment on February 1, 2008.

24. MINORITY INTEREST

As of December 31, minority interest in the Group was as follows:

in million €	**2007**	2006
Minority interest in FMC-AG & Co. KGaA	**2,456**	2,398
Minority interest in the business segments		
Fresenius Medical Care	**72**	57
Fresenius Kabi	**28**	24
Fresenius ProServe	**118**	118
Corporate/Other	**–**	-2
Total minority interest	**2,674**	2,595

Minority interest increased in 2007 by € 79 million to € 2,674 million. The change resulted from the minorities' share of profit of € 388 million, dividend payments of € 116 million and from negative currency effects as well as first-time consolidations in a total amount of € 193 million.

25. SHAREHOLDERS' EQUITY

SUBSCRIBED CAPITAL

Development of subscribed capital

In the course of the acquisition of HUMAINE Kliniken GmbH in the third quarter of 2006, the subscribed capital was increased against contribution in kind in an amount of € 903,884.80 by issuing 176,540 bearer ordinary shares and 176,540 bearer preference shares in the fourth quarter of 2006. The registration of the capital increase in the commercial register took place on November 17, 2006.

On December 4, 2006, at the Extraordinary General Meeting, Fresenius AG's shareholders approved a new division of the subscribed capital in connection with a capital increase from the Company's funds. The registration in the commercial register took place on January 24, 2007. Through a conversion of capital reserves, the subscribed capital was first increased by € 22,638,568.48 to € 154,353,876.00 and then divided into 77,176,938 ordinary shares and 77,176,938 preference shares. The new proportionate amount of the subscribed capital is € 1.00 per share. (See Note 1.II, Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital.)

During the fiscal year 2007, 810,894 stock options were exercised.

Accordingly, at December 31, 2007, the subscribed capital of Fresenius SE was divided into 77,582,385 bearer ordinary shares and 77,582,385 non-voting bearer preference shares. The shares are issued as non-par value shares.

Notification by shareholders

The Else Kröner-Fresenius-Stiftung notified Fresenius SE on December 28, 2007, that it holds 46,582,692 ordinary shares of Fresenius SE representing 60.04 % of the voting rights.

Fidelity International, with its registered office in Great Britain, Tadworth, has notified Fresenius SE in the name of and on behalf of FIL Limited, Hamilton, Bermuda, which changed its name from Fidelity International Limited to FIL Limited with effect from February 1, 2008, pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) of the following: On February 4, 2008, FIL Limited exceeded the thresholds of 3 % and 5 % of the voting rights in Fresenius SE, Else-Kröner-Strasse 1, 61352 Bad Homburg v. d. H., Germany. On that date, FIL Limited held 6.03 % of the voting rights in Fresenius SE arising from 4,675,538 voting rights. All voting rights in Fresenius SE were attributed to FIL Limited pursuant to section 22 (1) sentence 1 No. 6 WpHG.

Fidelity International, with its registered office in Great Britain, Kingswood Fields, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, notified Fresenius SE in the name of and on behalf of Fidelity Investment Trust, Boston, Massachusetts, USA, pursuant to Section 21 (1) WpHG of the following:

On January 22, 2008, Fidelity Investment Trust exceeded the threshold of 3 % of voting rights in Fresenius SE, Else-Kröner-Strasse 1, 61352 Bad Homburg v. d. H., Germany. On that date, Fidelity Investment Trust held 3.02 % of the voting rights in Fresenius SE arising from 2,341,614 voting rights.

Fidelity International, with its registered office in Great Britain, Kingswood Fields, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, notified Fresenius SE in the name of and on behalf of Fidelity Management & Research Company, Boston, Massachusetts, United States, retroactively pursuant to Section 21 (1) WpHG of the following: On 4 December 2007, Fidelity Management & Research Company exceeded the threshold of 3 % of the voting rights in Fresenius SE, Else-Kröner-Strasse 1, 61352 Bad Homburg v. d. H., Germany. On that date, Fidelity Management & Research Company held 3.03 % of the voting rights in Fresenius SE arising from 2,346,900 voting rights. All voting rights in Fresenius SE were attributed to Fidelity Management & Research Company pursuant to Section 22 (1) sentence 1 No. 6 WpHG.

Fidelity International, with its registered office in Great Britain, Kingswood Fields, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, notified Fresenius SE that as a result of an internal merger reorganisation effective from October 1, 2007, FMR LLC. (a Delaware limited liability company with its principal place of business in Boston, Massachusetts, United States) became the successor entity to FMR Corp. and has assumed all its rights and obligations. As of October 1, 2007, FMR LLC. held 3.43 % of the voting rights (voting rights arising of 2,658,121 shares in Fresenius SE) and therefore exceeded the threshold of 3 %. All of the voting rights of FMR LLC. are attributed to it pursuant to Section 22 (1) sentence 1 No. 6 and sentence 2 WpHG.

Fidelity International, with its registered office in Great Britain, Kingswood Fields, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, notified Fresenius AG on June 25, 2007 in accordance with Section 21 (1) WpHG that, as of June 20, 2007, the voting rights of FMR Corp., 82 Devonshire Street, Boston, Massachusetts 02109, United States, in Fresenius AG, Else-Kröner-Strasse 1, Bad Homburg v. d. H., Germany, have exceeded the threshold of 3% and amounted to 3.44 % (exact number of voting rights: 2,657,416 shares). The voting rights are entirely attributable to FMR Corp. pursuant to Section 22 (1) sentence 2 WpHG in connection with Section 22 (1) sentence 1 No. 6 WpHG.

Julius Baer Investment Management LLC, with registered offices in New York, 330 Madison Avenue, United States, notified Fresenius AG in accordance with Section 21 (1) WpHG that its voting rights in Fresenius AG, Else-Kröner-Strasse 1, Bad Homburg v. d. H., Germany, exceeded the threshold of 3 % on February 22, 2007 and amounted to 3.03 % (exact number of voting rights: 2,342,190 shares) both in relation to the total number of voting rights of the issuer and in relation to all voting shares of the same share class. The voting rights are entirely attributable to Julius Baer Investment Management LLC, 330 Madison Avenue, NY 10017 New York, United States, pursuant to Section 22 (1) sentence 1 No. 6 WpHG.

WestLB AG, with its registered office in Germany, 40217 Düsseldorf, Herzogstrasse 15, notified Fresenius AG on June 22, 2007 in accordance with Section 21 (1) WpHG that, as of June 22, 2007, its voting rights in Fresenius AG, Else-Kröner-Strasse 1, Bad Homburg v. d. H., Germany, have fallen below the threshold of 3 % and now amount to 0 %. All voting rights were held by RWS Securities Services Gesellschaft für Wertpapiervermittlung mbH and were attributed to WestLB in accordance to Section 22 (1) sentence 1 No. 1 WpHG.

APPROVED CAPITAL

By resolution of the Annual General Meeting on May 10, 2006, the previous Approved Capital II was revoked. The Management Board of Fresenius SE was authorized, with the approval of the Supervisory Board, until May 9, 2011,

- to increase Fresenius SE's subscribed capital by a nominal total amount of up to € 12,800,000.00 through a single or multiple issue of new bearer ordinary shares and/or non-voting bearer preference shares against cash contributions (Approved Capital I). A subscription right must be granted to shareholders.
- to increase Fresenius SE's subscribed capital by a nominal total amount of up to € 6,400,000.00 through a single or multiple issue of new bearer ordinary shares and/or non-voting bearer preference shares against cash contributions and/or contributions in kind (Approved Capital II). The Management Board is authorized, with the consent of the Supervisory Board, to decide on the exclusion of the shareholders' subscription right (§§ 203 (2), 186 (3) sentence 4 of the German Stock Corporation Act (AktG)). As of December 31, 2006, the Approved Capital II decreased by € 903,884.80 to € 5,496,115.20 due to the payment in shares in connection with the acquisition of HUMAINE.

CONDITIONAL CAPITAL

Corresponding to the stock option plans, the Conditional Capital of Fresenius SE is divided into Conditional Capital I and Conditional Capital II. Both exist to secure the subscription rights in connection with already issued stock options on bearer ordinary shares and bearer preference shares of the stock option plans of 1998 and 2003 (see Note 32, Stock options).

Due to the capital increase from the Company's funds (see Note 1.II, Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital), the Conditional Capital increased in the same proportion as the subscribed capital by operation of law (cf. Section 218 sentence 1 of the German Stock Corporation Act (AktG)). After the registration of the share split in the commercial register on January 24, 2007, the Conditional Capital I amounted to € 1,971,966.00 (as of December 31, 2006: € 1,682,744.32), divided into 985,983 bearer ordinary and bearer preference shares, and the Conditional Capital II amounted to € 5,104,962.00 (as of December 31, 2006: € 4,356,234.24), divided into 2,552,481 bearer ordinary and bearer preference shares.

The following table shows the development of the Conditional Capital:

in €	Ordinary shares	Preference shares	Total
Conditional Capital I Fresenius AG Stock Option Plan 1998	985,983.00	985,983.00	1,971,966.00
Conditional Capital II Fresenius AG Stock Option Plan 2003	2,552,481.00	2,552,481.00	5,104,962.00
Total Conditional Capital as of January 1, 2007	**3,538,464.00**	**3,538,464.00**	**7,076,928.00**
Fresenius AG Stock Option Plan 1998 – options exercised	-217,677.00	-217,677.00	-435,354.00
Fresenius AG Stock Option Plan 2003 – options exercised	-187,770.00	-187,770.00	-375,540.00
Total Conditional Capital as of December 31, 2007	**3,133,017.00**	**3,133,017.00**	**6,266,034.00**

CAPITAL RESERVES

Capital reserves comprise the premium paid on the issue of shares and stock options (additional paid-in capital).

In 2006, the capital reserve increased by € 41 million in connection with the acquisition of HUMAINE.

OTHER RESERVES

Other reserves comprise earnings generated by Group entities in prior years to the extent that they have not been distributed.

DIVIDENDS

Under the German Stock Corporation Act (AktG), the amount of dividends available for distribution to shareholders is based upon the unconsolidated retained earnings of Fresenius SE as reported in its balance sheet determined in accordance with the German Commercial Code (HGB).

At the Annual General Meeting in May 2007, a resolution was passed to pay a dividend of € 0.57 per bearer ordinary share and € 0.58 per bearer preference share, i. e. a total dividend of € 88.8 million was resolved and paid.

26. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) comprises all amounts recognized directly in equity (net of tax) resulting from the currency translation of foreign subsidiaries' financial statements and the effects of measuring financial instruments at their fair value.

Changes in the components of other comprehensive income (loss) in 2007 and 2006 were as follows:

			2007			2006
in million €	Amount before taxes	Tax effect	Amount after taxes	Amount before taxes	Tax effect	Amount after taxes
Unrealized gains/losses on securities	–	–	–	–	–	–
Changes in unrealized gains/losses on derivative financial instruments	-65	28	-37	24	-8	16
Change in unrealized gains/losses	-62	27	-35	21	-7	14
Realized gains/losses due to reclassifications	-3	1	-2	3	-1	2
Foreign currency translation adjustment	-113	0	-113	-117	0	-117
Other comprehensive income (loss)	**-178**	**28**	**-150**	-93	-8	-101

OTHER NOTES

27. COMMITMENTS AND CONTINGENT LIABILITIES

OPERATING LEASES AND RENTAL PAYMENTS

Fresenius Group's subsidiaries lease office and manufacturing buildings as well as machinery and equipment under various lease agreements expiring on dates through 2101. Rental expense recorded for operating leases for the years ended December 31, 2007 and 2006 was € 376 million and € 369 million, respectively.

Future minimum rental payments under non-cancellable operating leases for the years subsequent to December 31, 2007 are:

for the fiscal years	in million €
2008	267
2009	235
2010	199
2011	165
2012	133
Thereafter	406
Total	**1,405**

As of December 31, 2007, future investment commitments existed up to the year 2015 from the acquisition contracts for hospitals at projected costs of up to € 226 million. Thereof € 36 million relate to the year 2008.

Besides the above mentioned contingent liabilities, the amount of other commitments is immaterial.

LEGAL PROCEEDINGS

Commercial litigation

Fresenius Medical Care was originally formed as a result of a series of transactions pursuant to the Agreement and Plan of Reorganization dated as of February 4, 1996 by and between W.R. Grace & Co. and Fresenius SE (formerly: Fresenius AG) (the Merger). At the time of the Merger, a W.R. Grace & Co. subsidiary known as W.R. Grace & Co.-Conn. had, and continues to have, significant liabilities arising out of product-liability related litigation (including asbestos-related actions), pre-Merger tax claims and other claims unrelated to National Medical Care, Inc. (NMC), which was W.R. Grace & Co.'s dialysis business prior to the Merger. In connection with the Merger, W.R. Grace & Co.-Conn. agreed to indemnify Fresenius Medical Care, Fresenius Medical Care Holdings, Inc. (FMCH) and NMC against all liabilities of W.R. Grace & Co., whether relating to events occurring before or after the Merger, other than liabilities arising from or relating to NMC's operations. W.R. Grace & Co. and certain of its subsidiaries filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code (the Grace Chapter 11 Proceedings) on April 2, 2001.

Prior to and after the commencement of the Grace Chapter 11 Proceedings, class action complaints were filed against W.R. Grace & Co. and FMCH by plaintiffs claiming to be creditors of W.R. Grace & Co.-Conn., and by the asbestos creditors' committees on behalf of the W.R. Grace & Co. bankruptcy estate in the Grace Chapter 11 Proceedings, alleging among other things that the Merger was a fraudulent conveyance, violated the uniform fraudulent transfer act and constituted a conspiracy. All such cases have been stayed and transferred to or are pending before the U.S. District Court as part of the Grace Chapter 11 Proceedings.

In 2003, Fresenius Medical Care reached agreement with the asbestos creditors' committees on behalf of the W.R. Grace & Co. bankruptcy estate and W.R. Grace & Co. in the matters pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance and tax claims against it and other claims related to Fresenius Medical Care that arise out of the bankruptcy of W.R. Grace & Co. Under the terms of the settlement agreement as amended (Settlement Agreement), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and Fresenius Medical Care will receive protection against existing and potential future W.R. Grace & Co. related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-NMC members of the W.R. Grace & Co. consolidated tax group upon confirmation of a W.R. Grace & Co. bankruptcy reorganization plan that contains such provisions. Under the Settlement Agreement, Fresenius Medical Care will pay a total of US$ 115 million without interest to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation.

No admission of liability has been or will be made. The Settlement Agreement has been approved by the U.S. District Court. Subsequent to the Merger, W.R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation (Sealed Air, formerly: Grace Holding, Inc.). Fresenius Medical Care is engaged in litigation with Sealed Air to confirm its entitlement to indemnification from Sealed Air for all losses and expenses incurred by Fresenius Medical Care relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions of Fresenius Medical Care's payment obligation, this litigation will be dismissed with prejudice.

On April 4, 2003, FMCH filed a suit in the U.S. District Court for the Northern District of California, styled Fresenius USA, Inc., et al., v. Baxter International, Inc., et al., Case No. C 03-1431, seeking a declaratory judgment that FMCH does not infringe on patents held by Baxter International, Inc. and its subsidiaries and affiliates (Baxter), that the patents are invalid, and that Baxter is without right or authority to threaten or maintain suit against FMCH for alleged infringement of Baxter's patents. In general, the alleged patents concern the use of touch screen interfaces for hemodialysis machines. Baxter filed counterclaims against FMCH seeking more than US$ 140 million in monetary damages and injunctive relief, and alleging that FMCH willfully infringed on Baxter's patents. On July 17, 2006, the court entered judgment on a jury verdict in favor of FMCH finding that all the asserted claims of the Baxter patents are invalid as obvious and/or anticipated in light of prior art. On February 13, 2007, the court granted Baxter's motion to set aside the jury's verdict in favor of FMCH and reinstated the patents and its prior infringement findings. Following a retrial on damages, the court entered judgment on November 6, 2007 in favor of Baxter on a jury award of US$ 14.3 million. Fresenius Medical Care intends to appeal the court's rulings.

FMC-AG & Co. KGaA's Australian subsidiary, Fresenius Medical Care Australia Pty Limited (Fresenius Medical Care Australia) and Gambro Pty Limited and Gambro AB (together Gambro Group) are in litigation regarding infringement and damages with respect to the Gambro AB patent protecting intellectual property in relation to a system for preparation of dialysis or replacement fluid, the Gambro bicart device in Australia (Gambro Patent). As a result of the commercialization of a system for the preparation of dialysis fluid based on the Fresenius Medical Care Bibag device in Australia, the Australian courts concluded that Fresenius Medical Care Australia infringed the Gambro Patent. The parties are still in legal dispute with respect to the issue of potential damages related to the patent infringement. As the infringement proceedings have solely been brought in the Australian jurisdiction any potential damages to be paid by Fresenius Medical Care Australia will be limited to the potential losses of the Gambro Group caused by the patent infringement in Australia.

Other litigation and potential exposures

RCG was named as a nominal defendant in a second amended complaint filed September 13, 2006, in the Chancery Court for the State of Tennessee Twentieth Judicial District at Nashville against former officers and directors of RCG which purports to constitute a class action and derivative action relating to alleged unlawful actions and breaches of fiduciary duty in connection with the RCG acquisition and in connection with alleged improper backdating and/or timing of stock option grants. The amended complaint was styled Indiana State District Council of Laborers and Hod Carriers Pension Fund, on behalf of itself and all others similarly situated and derivatively on behalf of RCG, Plaintiff, vs. RCG, Gary Brukardt, William P. Johnston, Harry R. Jacobson, Joseph C. Hutts, William V. Lapham, Thomas A. Lowery, Stephen D. McMurray, Peter J. Grua, C. Thomas Smith, Ronald Hinds, Raymond Hakim, and R. Dirk Allison, Defendants. The complaint sought damages against former officers and directors and did not state a claim for money damages directly against RCG. On August 30, 2007, this suit was dismissed by the trial court without leave to amend. Plaintiff subsequently appealed and the matter remains pending in the appellate court of Tennessee.

In October 2004, FMCH and its subsidiaries, including RCG (prior to the RCG acquisition), received subpoenas from the U.S. Department of Justice, Eastern District of New York, in connection with a civil and criminal investigation, which requires production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents relating to laboratory testing for parathyroid hormone (PTH) levels and vitamin D therapies. Fresenius Medical Care is cooperating with the government's requests for information. While Fresenius Medical Care believes that it has complied with applicable laws relating to PTH testing and use of vitamin D therapies, an adverse determination in this investigation could have a material adverse effect on Fresenius Medical Care's business, financial condition, and results of operations.

FMCH and its subsidiaries, including RCG (prior to the RCG acquisition), received a subpoena from the U.S. Department of Justice, Eastern District of Missouri, in connection with a joint civil and criminal investigation. FMCH received its subpoena in April 2005. RCG received its subpoena in August 2005. The subpoenas require production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relationships, joint ventures, and anemia management programs, RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, and RCG's purchase of dialysis equipment from FMCH. The Office of the Inspector General of the U.S. Department of Health and Human Services and the U.S. Attorney's office for the Eastern District of Texas have also confirmed that they are participating in the review of the anemia management program issues raised by the U.S. Attorney's office for the Eastern District of Missouri. On July 17, 2007, the U.S. Attorney's office filed a civil complaint against RCG and FMCH in its capacity as RCG's current corporate parent in the United States District Court, Eastern District of Missouri. The complaint seeks monetary damages and penalties with respect to issues arising out of the operation of RCG's Method II supply company through 2005, prior to the date of FMCH's acquisition of RCG. The complaint is styled United States of America ex rel. Julie Williams et al. vs. Renal Care Group, Renal Care Group Supply Company and FMCH. Fresenius Medical Care believes that RCG's operation of its Method II supply company was in compliance with applicable law and will defend this litigation vigorously. Fresenius Medical Care will continue to cooperate in the ongoing investigation. An adverse determination in this investigation or litigation or any settlement arising out of this investigation or litigation could result in significant financial penalties, and any adverse determination in any litigation arising out of the investigation could have a material adverse effect on Fresenius Medical Care's business, financial condition and results of operations.

In May 2006, RCG received a subpoena from the U.S. Department of Justice, Southern District of New York, in connection with an investigation into RCG's administration of its stock option programs and practices, including the procedure under which the exercise price was established for certain of the option grants. The subpoena required production of a broad range of documents relating to the RCG stock option program prior to the RCG acquisition. Fresenius Medical Care cooperated with the government's requests for information and believes that they have completed the requested production. The outcome and impact of this investigation cannot be predicted at this time.

In August 2007, the Sheet Metal Workers National Pension Fund filed a complaint in the United States District Court for the Central District of California, Western Division (Los Angeles), alleging that Amgen, Inc., Fresenius Medical Care and Davita, Inc. marketed Amgen's products, Epogen® and Aranesp®, to hemodialysis patients for uses not approved by the FDA and thereby caused a putative class of commercial insurers to pay for unnecessary prescriptions of these products. Motions have been filed to consolidate this case with others against Amgen alone in a single case under the federal rules for multidistrict litigation. FMCH intends to contest and defend this litigation vigorously. An adverse determination in this litigation could have a material adverse effect on Fresenius Medical Care's business, financial condition and results of operations.

On November 27, 2007, the United States District Court for the Western District of Texas (El Paso) unsealed and permitted service of two complaints previously filed under seal by a qui tam relator, a former FMCH local clinic employee. (Qui tam is a legal provision under the United States False Claims Act, which allows for private individuals to bring suit on behalf of the U.S. federal government, as far as such individuals believe to have knowledge of presumable fraud committed by third parties.) The first complaint alleges that a nephrologist unlawfully employed in his practice an assistant to perform patient care tasks that the assistant was not licensed to perform and that Medicare billings by the nephrologist and FMCH therefore violated the False Claims Act. The second complaint alleges that FMCH unlawfully retaliated against the relator by discharging her from employment constructively. The United States Attorney for the Western District of Texas has declined to intervene and to prosecute on behalf of the United States. Counsel for the nephrologist has asserted that a criminal investigation of the relator's allegations is continuing. FMCH has received no other notice of the pendency of any criminal investigation related to this matter. FMCH intends to defend vigorously against the allegations in the two complaints. The outcome of this litigation, or of any related investigation, cannot be predicted at this time.

Accrued special charge of Fresenius Medical Care for legal matters

At December 31, 2001, Fresenius Medical Care recorded a pre-tax special charge of US$ 258 million to reflect anticipated expenses associated with the defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlements with insurers have been charged against this accrual. With the exception of the proposed US$ 115 million (€ 78 million) payment under the Settlement Agreement, all other matters included in the special charge have been resolved. While Fresenius Medical Care believes that its remaining accrual reasonably estimates its currently anticipated costs related to the continued defense and resolution of this matter, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual.

Furthermore, the Fresenius Group is involved in various legal disputes arising from the ordinary course of its business. Although the ultimate outcome of these legal disputes cannot be predicted, the Fresenius Group does not expect any material adverse effects on the business, financial condition and results of operations of the Group.

28. FINANCIAL INSTRUMENTS

The Fresenius Group adopted IFRS 7 (Financial Instruments: Disclosures) as of January 1, 2007. IFRS 7 introduces new disclosure requirements to improve the information on financial instruments with regard to risk management – in addition to the existing disclosures – (concerning recognition, presentation and measurement of financial instruments) in the IFRS-consolidated financial statements.

VALUATION OF FINANCIAL INSTRUMENTS

Fair value of financial instruments

The following table presents the carrying amounts and fair values of the Group's financial instruments as of December 31.

	2007		2006	
in million €	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	**361**	**361**	261	261
Assets recognized at carrying amount	**2,167**	**2,167**	2,096	2,096
Liabilities recognized at carrying amount	**6,152**	**6,123**	6,306	6,391
Derivatives	**-16**	**-16**	39	39

Derivatives were recognized at gross values as other current assets in an amount of € 18 million and other liabilities in an amount of € 34 million.

Estimation of fair values of financial instruments

The significant methods and assumptions used to estimate the fair values of financial instruments are as follows:

Cash and cash equivalents are stated at nominal value which equals the fair value.

Short-term financial instruments like accounts receivables and payables and short-term borrowings are valued at their carrying amounts, which are reasonable estimates of the fair value due to the relatively short period to maturity of these instruments.

The fair values of senior notes and trust preferred securities are based on market prices and quotes as of the balance sheet date. The fair values of other fixed-rate financial liabilities, for which market quotes are not available, are calculated as present value of the respective future cash flows. To determine these present values, the prevailing interest rates and credit spreads for the Fresenius Group as of the balance sheet date are used.

The fair values of financial liabilities with floating interest rates approximate their carrying amounts as the interest rates for these liabilities are predominantly updated every three months with interest rates reflecting actual market conditions at the time of update.

Derivates consisting of interest rate swaps and foreign exchange forward contracts are valued as follows: The fair value of interest rate swaps is calculated by discounting the future cash flows on the basis of the market interest rates applicable for the remaining term of the contract as of the balance sheet date. To determine the fair value of foreign exchange forward contracts, the contracted forward rate is compared to the current forward rate for the remaining term of the contract as of the balance sheet date. The result is then discounted on the basis of the market interest rates prevailing at the balance sheet date for the respective currency.

Effects of non-derivative financial instruments recorded in the consolidated statement of income

The effects of non-derivative financial instruments recorded in the consolidated statements of income consisted of interest income of € 27 million and interest expenses of € 395 million, as well as allowance for doubtful accounts in an amount of € 152 million.

MARKET RISK

General

The Fresenius Group is exposed to effects related to foreign exchange fluctuations in connection with its international business activities that are denominated in various currencies. In order to finance its business operations, the Fresenius Group issues bonds, trust preferred securities and commercial papers and enters into mainly long-term credit agreements and mid-term Euro Notes (Schuldscheindarlehen) with banks. Due to these financing activities, the Fresenius Group is exposed to interest risk caused by changes in variable interest rates and the risk of changes in the fair value of balance sheet items bearing fixed interest rates.

In order to manage the risks of interest rate and foreign exchange rate fluctuations, the Fresenius Group enters into certain hedging transactions with highly rated financial institutions as authorized by the Management Board. Derivative financial instruments are not used for trading purposes.

In general, the Fresenius Group conducts its derivative financial instrument activities under the control of a single centralized department. The Fresenius Group has established guidelines derived from best practice standards in the banking industry for risk assessment procedures and supervision concerning the use of financial derivatives. These guidelines require amongst other things a clear segregation of duties in the areas of execution, administration, accounting and controlling.

The Fresenius Group defines benchmarks for individual exposures in order to quantify interest and foreign exchange risks. The benchmarks are derived from achievable and reasonable market rates. Depending on the individual benchmarks, hedging strategies are determined and implemented.

Earnings of the Fresenius Group were not materially affected by hedge ineffectiveness in the reporting period since the critical terms of the interest and foreign exchange derivatives mainly matched the critical terms of the underlying exposures.

Derivative financial instruments

Foreign exchange risk management

The Fresenius Group has determined the euro as its financial reporting currency. Therefore, foreign exchange translation risks resulting from the fluctuation of exchange rates between the euro and the local currencies in which the financial statements of the foreign subsidiaries are prepared have an impact on results of operations and financial positions reported in the consolidated financial statements.

Besides translation risks, foreign exchange transaction risks exist, which mainly relate to transactions such as sales and purchases as well as engineering and services provided by Fresenius Group which are denominated in foreign currencies. A major part of transaction risks arise from products manufactured in Fresenius Group's worldwide production sites which are usually denominated in the local currency of the respective manufacturer and are delivered worldwide to various Fresenius Group entities. These intragroup sales are mainly denominated in euros, US dollars and yens. Therefore, Group companies are exposed to changes of the foreign exchange rates between the invoicing currencies and the local currencies in which they conduct their businesses. For the purpose of hedging existing and foreseeable foreign exchange transaction exposures, the Fresenius Group enters into foreign exchange forward contracts and, on a small scale, foreign exchange options. Foreign exchange forward contracts and options are not used for purposes other than hedging foreign exchange exposures. At December 31, 2007, the Fresenius Group had no foreign exchange options.

As of December 31, 2007, the notional amounts of foreign exchange contracts totaled € 739 million with a fair value of € 14 million. These foreign exchange contracts have been entered into to hedge risks from operational business and in connection with intercompany loans in foreign currency. The predominant part of the foreign exchange forward contracts to hedge risks from operational business was recognized as cash flow hedge.

The hedge-effective portion of changes in the fair value of foreign exchange forward contracts that are designated and qualified as cash flow hedges of forecasted product purchases and sales is reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings as a component of cost of sales or as selling, general and administrative expenses as well as interest income or expenses in the same period in which the hedged transaction affects earnings. After-tax gains of € 6 million (€ 8 million pre-tax) for the year ended December 31, 2007 are deferred in accumulated other comprehensive income and will mainly be reclassified into earnings during 2008. During 2007, the Fresenius Group reclassified after-tax unrealized gains of € 1 million (€ 2 million pre-tax) from accumulated other comprehensive income (loss) into the profit and loss statement.

As of December 31, 2007, the Fresenius Group was party to foreign exchange contracts with a maximum maturity of 24 months.

In order to estimate and quantify the transaction risks from foreign currencies, the Fresenius Group considers the cash flows reasonably expected for the following three months as the relevant assessment basis for a sensitivity analysis. For this analysis, the Fresenius Group assumes that all foreign exchange rates in which the Group had unhedged positions as of reporting date would be negatively impacted by 10 %. By multiplying the calculated unhedged risk positions with this factor, the maximum possible negative impact of the foreign exchange transaction risks on the Group's results of operations would be € 10 million.

Interest rate risk management

Fresenius Group's interest rate risks mainly arise from money market and capital market transactions of the Group for financing its business activities. Interest rate hedging transactions are primarily concluded by Fresenius SE and FMC-AG & Co. KGaA.

The Fresenius Group enters into interest rate swaps and, on a small scale, into interest rate options in order to hedge against interest rate exposures arising from short-term and long-term borrowings at variable rates by swapping them into fixed rates. In addition, the Fresenius Group uses interest rate swaps to hedge against changes of the fair value of the underlying fixed rate financial liabilities.

For purposes of analyzing the impact of changes in the relevant reference interest rates on Fresenius Group's results of operations, the Group calculates the portion of financial debt which bears variable interest rate and which has not been hedged by means of interest rate swaps or options against rising interest rates, plus the portion of financial debt which bears fixed interest rates and which has been converted into floating rate debt by using interest rate swaps. For this particular part of its liabilities, the Fresenius Group assumes an increase in the reference rates of 0.5 % compared to the actual rates as of the balance sheet date. The corresponding additional annual interest expense is then compared to the Group net income. This analysis shows that an increase of 0.5 % in the relevant reference rates would have an effect of less than 1 % on the Group's consolidated net income.

Cash Flow Hedge

The Fresenius Group enters into interest rate swaps that are designated as cash flow hedges effectively converting certain variable interest rate payments, resulting from existing revolving loans and Euro Notes (Schuldscheindarlehen) mainly denominated in US dollars or euros, into fixed interest rate payments. The US dollar interest rate swaps with a notional volume of US$ 3,465 million and a fair value of US$ -35 million expire at various dates between 2008 and 2012. These interest rate derivatives include interest rate swaps with a notional amount of US$ 650 million entered into in 2007, which will become effective as of March 31, 2008. Until that date, interest rate swaps with a notional amount of US$ 515 million will expire. The Euro interest rate swaps with a notional volume of € 217 million and a fair value of € -2 million expire between 2008 and 2014. The US dollar interest rate swaps bear an average interest rate of 4.43 % and the Euro interest rate swaps bear an average interest rate of 4.56 %.

At December 31, 2007, pre-tax losses of € 26 million (2006: pre-tax gains of € 45 million) were recognized in accumulated other comprehensive income (loss). The equivalent amounts of after-tax losses and after-tax gains were € 16 million and € 28 million, respectively. Interest payables and interest receivables in connection with the swap agreements are accrued and recorded as an adjustment to the interest expense at each reporting date.

Fair Value Hedge

Fresenius Medical Care entered into US dollar interest rate swaps designated as fair value hedges to hedge the risk of changes in the fair value of parts of its US dollar fixed rate borrowings. These interest rate swaps effectively convert the fixed interest payments on Fresenius Medical Care Capital Trust II trust preferred securities denominated in US dollars into variable interest rate payments. Since the critical terms of the interest rate swap agreements are identical to the terms of Fresenius Medical Care Capital Trust II trust preferred securities, the hedging relationship is highly effective and no ineffectiveness affects earnings. These interest rate swaps are reported at fair value in the balance sheet. The reported amount of the hedged portion of fixed rate trust preferred securities includes an adjustment representing the change in fair value attributable to the interest rate risk being hedged. The effect of hedged underlyings recognized in the income statement amounted to € -7 million (2006: € -3 million) and was mainly offset by the effect of the hedging instruments recognized in the income statement in an amount of € 7 million (2006: € 3 million). At December 31, 2007, the notional volume and fair value of these swaps at Fresenius Medical Care was US$ 450 million (€ 306 million) and US$ -6 million (€ -4 million), respectively. On February 1, 2008, the fair value hedges of Fresenius Medical Care expired together with the mandatory redemption of the underlying debt.

CREDIT RISK

The Fresenius Group is exposed to potential losses in the event of non-performance by counterparties to derivative financial instruments. With respect to derivative financial instruments it is not expected that any counterparty fails to meet its obligations as the counterparties are highly rated financial institutions. The maximum credit exposure of derivatives is represented by the fair value of those contracts with a positive fair value amounting to € 0.4 million for interest rate derivatives and € 19 million for foreign exchange derivatives at December 31, 2007. The maximum credit risk resulting from the use of non-derivative financial instruments is defined as the total amount of all receivables. In order to control this credit risk, the Management of the Fresenius Group performs an ageing analysis of trade accounts receivable. For details on the ageing analysis and on the allowance for doubtful accounts, please see Note 13, Trade accounts receivable.

LIQUIDITY RISK

The liquidity risk is defined as the risk that a company is potentially unable to meet its financial obligations. The Management of the Fresenius Group manages the liquidity of the Group by means of effective working capital and cash management as well as an anticipatory evaluation of refinancing alternatives. The Management of the Fresenius Group believes that existing credit facilities as well as the cash generated by operating activities and additional short-term borrowings are sufficient to meet the Company's foreseeable demand for liquidity (see Note 20, Debt and liabilities from capital lease obligations).

29. SUPPLEMENTARY INFORMATION ON CAPITAL MANAGEMENT

Fresenius has a solid financial profile. Capital management includes both equity and debt. A principal objective of Fresenius Group's capital management is to optimize the weighted average cost of capital. Further, it is sought to achieve a balanced mix of equity and debt. To secure growth on a long-term basis the use of a capital increase may also be considered in exceptional cases, for instance to finance a major acquisition.

Due to the Company's diversification within the health care sector and the strong market positions of the business segments in global, growing and non-cyclical markets, high, stable, predictable and sustainable cash flows are generated. They allow a reasonable proportion of debt, i. e. the employment of an extensive mix of financial liabilities. Moreover, Fresenius Group's customers are almost invariably of high credit quality.

Equity and debt have developed as follows:

Shareholders' equity and total assets

in million €	**December 31, 2007**	December 31, 2006
Total shareholders' equity	**6,099**	5,798
Total assets	**15,327**	15,024
Equity ratio	**39.79 %**	38.59 %

Fresenius SE is not subject to any capital requirements provided for in its Articles of Association. Fresenius SE has obligations to issue shares out of the Conditional Capital relating to the exercise of stock options and convertible bonds on the basis of the existing 1998 and 2003 stock option plans (see Note 32, Stock options).

Debt

in million €	**December 31, 2007**	December 31, 2006
Debt	**5,704**	5,879
Total liabilities and shareholders' equity	**15,327**	15,024
Debt ratio	**37.22 %**	39.13 %

Assuring financial flexibility is the top priority in the Group's financing strategy. This flexibility is achieved through a wide range of financing instruments and a high degree of diversification of the investors. The Fresenius Group's maturity profile displays a broad spread of maturities with a high proportion of medium and long-term financings. In the choice of financing instruments market capacity, investor diversification, flexibility, credit conditions and the existing maturity profile are taken into account.

A key financial performance indicator for the Fresenius Group is the net debt/EBITDA ratio, which is measured on the basis of US GAAP figures. This ratio was 2.6 as of December 31, 2007. The aim is to reduce this further. To achieve this goal, Fresenius Group's focus is primarily on earnings growth and sustained strong cash flows as well as debt reduction. In the medium term, the Fresenius Group plans to reach a net debt/EBITDA ratio of 2.5. This target is on the assumption that no major acquisition opportunities arise.

Fresenius Group's financing strategy is reflected in its credit ratings. Fresenius is covered by both of the two leading rating agencies, Moody's and Standard & Poor's. Fresenius SE currently has a BB rating from Standard & Poor's and a Ba2 rating from Moody's.

	Standard & Poor's	**Moody's**
Company rating	BB	Ba2
Senior debt	BB	Ba2
Outlook	stable	positive

30. SUPPLEMENTARY INFORMATION ON CASH FLOW STATEMENT

The cash flow statements of the Fresenius Group for the fiscal years 2007 and 2006 are shown on pages 52 to 53.

Cash funds reported in the cash flow statement and in the balance sheet comprise cash on hand, checks, securities and cash at bank which are readily convertible within three months and are subject to insignificant risk of changes in value.

The following summaries provide additional information with regard to the consolidated cash flow statement:

in million €	**2007**	2006
Interest paid	**388**	393
Income taxes paid	**323**	401

Cash paid for acquisitions consisted of the following:

in million €	**2007**	2006
Assets acquired	**768**	4,196
Liabilities assumed	**-124**	-402
Minority interest	**-9**	-45
Notes assumed in connection with acquisitions	**-170**	-24
Cash paid	**465**	3,725
Cash acquired	**-22**	-68
Cash paid for acquisitions, net	**443**	3,657

31. NOTES ON SEGMENT REPORTING

GENERAL

The segment reporting tables shown on pages 56 to 59 of this annual report are an integral part of the Notes.

The Fresenius Group has identified the business segments Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe which corresponds to the internal organizational and reporting structures (Management Approach) at December 31, 2007.

The key data disclosed in conjunction with segment reporting correspond to the key data of the internal reporting system in place across the Fresenius Group. Internal and external reporting and accounting correspond to each other; the same key data and definitions are used.

Sales and proceeds between the segments are indicative of the actual sales and proceeds agreed with third parties. Administrative services are billed in accordance with service level agreements.

The business segments were identified in accordance with IFRS 8 (Operating Segments), which defines the segment reporting requirements in the annual financial statements and interim reports with regard to the operating business, product and service businesses and regions. The business segments of the Fresenius Group are as follows:

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats 173,863 patients in its 2,238 own dialysis clinics.

Fresenius Kabi is Europe's leading company in the field of infusion therapy and clinical nutrition with subsidiaries and distributors worldwide. Fresenius Kabi's products are used in hospitals as well as in out-patient medical care to treat critically and chronically ill patients. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

Fresenius ProServe is a leading German, private hospital operator with 60 facilities. Moreover the company offers engineering and services for hospitals and other health care facilities. As of January 1, 2008, Fresenius ProServe was replaced by two new business segments – Fresenius Helios and Fresenius Vamed, which so far have formed Fresenius ProServe. Fresenius Helios is focused on hospital operations. Fresenius Vamed offers engineering and services for hospitals and other health care facilities.

The segment Corporate/Other mainly comprises the holding functions of Fresenius SE as well as Fresenius Netcare GmbH, which provides services in the field of information technology as well as Fresenius Biotech, which does not fulfill the characteristics of a reportable segment. In addition, the segment Corporate/Other includes intersegment consolidation adjustments.

The key data used by the Management Board of Fresenius SE to control the segments are based on US GAAP. The segment information is therefore given in accordance with US GAAP. The column IFRS-Reconcilation provides a reconciliation from the US GAAP segment data to the IFRS key data. The differences between the US GAAP and the IFRS key data are mainly due to the differing recognition of revenues and expenses from reinsurance contracts, gains from sale and lease back transactions with an operating lease agreement, restructuring costs resulting from business combinations, development costs and cumulative actuarial gains and losses for pensions.

Segment reporting by region takes account of geographical factors and the similarity of markets in terms of opportunities and risks. The allocation to a particular region is based on the domicile of the customers.

NOTES ON THE BUSINESS SEGMENTS

The key figures used by the Management Board to assess segment performance, have been selected in such a way that they include all items of income and expenses which fall under the area of responsibility of the business segments. The Management Board is convinced that the most suitable performance indicator is the operating income (EBIT). The Management Board believes that, in addition to the operating income, the figure for earnings before interest, taxes and depreciation/amortization (EBITDA) can also help investors to assess the ability of the Fresenius Group to generate cash flows and to meet its financial obligations. The EBITDA figure is also the basis for assessing Fresenius Group's compliance with the terms of its credit agreements (e.g. the Fresenius Medical Care 2006 Senior Credit Agreement).

Depreciation and amortization is presented for the intangible assets with definite useful lives and property, plant and equipment of the respective business segment.

Net interest comprises interest and other similar expenses and income.

Net income is defined as earnings after income taxes and minority interest.

The operating cash flow is the cash provided by/used for operating activities.

The cash flow before acquisitions and dividends is the operating cash flow less net capital expenditure.

Debt comprises bank loans, senior notes, trust preferred securities, liabilities from capital lease obligations, liabilities relating to outstanding acquisitions as well as intercompany liabilities.

Capital expenditure includes additions to intangible assets and property, plant and equipment.

Acquisitions refer to both the purchase of shares in legally-independent companies and the acquisition of business divisions. The key figures shown with regard to acquisitions present the contractual purchase prices comprising amounts paid in cash (less cash acquired), debts assumed and the issuance of shares, whereas for the purposes of the cash flow statement, only cash purchase price components less acquired cash and cash equivalents are reported.

The EBITDA margin is calculated as a ratio of EBITDA to sales.

The EBIT margin is calculated as a ratio of EBIT to sales.

The return on operating assets (ROOA) is defined as the ratio of EBIT to average operating assets. Operating assets are defined as total assets less deferred tax assets, trade accounts payable and advance payments from customers as well as guaranteed subsidies.

In addition, the key indicators "Depreciation and amortization in % of sales" and "Operating cash flow in % of sales" are also disclosed.

Reconciliation of key figures to consolidated earnings

in million €	**2007**	2006
Total EBITDA of reporting segments	**2,122**	1,889
Depreciation and amortization	**-427**	-406
General corporate expenses Corporate/Other (EBITDA)	**-48**	-40
Interest expenses	**-395**	-418
Interest income	**27**	23
Total earnings before income taxes and minority interest	**1,279**	1,048
Total EBIT of reporting segments	**1,705**	1,494
General corporate expenses Corporate/Other (EBIT)	**-58**	-51
Interest expenses	**-395**	-418
Interest income	**27**	23
Total earnings before income taxes and minority interest	**1,279**	1,048
Depreciation and amortization of reporting segments	**417**	395
Depreciation and amortization Corporate/Other	**10**	11
Total depreciation and amortization	**427**	406

Reconciliation of net debt with the consolidated balance sheet

in million €	**December 31, 2007**	December 31, 2006
Short-term borrowings	**362**	330
Short-term liabilities and loans from related parties	**–**	1
Current portion of long-term debt and liabilities from capital lease obligations	**120**	272
Current portion of trust preferred securities of Fresenius Medical Care Capital Trusts	**455**	0
Long-term debt and liabilities from capital lease obligations, less current portion	**2,887**	3,230
Senior Notes	**1,434**	1,100
Trust preferred securities of Fresenius Medical Care Capital Trusts	**446**	946
Debt	**5,704**	5,879
less cash and cash equivalents	**361**	261
Net debt	**5,343**	5,618

The following table shows the non-current assets by geographical region:

in million €	**December 31, 2007**	December 31, 2006
Germany	**2,740**	2,317
Europe (excluding Germany)	**1,840**	1,659
North America	**5,765**	6,302
Asia-Pacific	**358**	266
Latin America	**192**	162
Africa	**36**	32
Total non-current assets[1)]	**10,931**	10,738

[1)] The aggregate amount of net non-current assets is the sum of non-current assets less deferred tax assets and derivative financial instruments.

In 2007, the Fresenius Group generated sales of € 2,476 million (2006: € 2,322 million) in Germany.

32. STOCK OPTIONS

COMPENSATION COST IN CONNECTION WITH THE STOCK OPTION PLANS OF THE FRESENIUS GROUP

In 2007, the Fresenius Group recognized compensation cost in an amount of € 28 million for stock options granted since 1998. For stock incentive plans which are performance based, the Fresenius Group recognizes compensation cost over the vesting periods, based on the then current market values of the underlying stock.

FAIR VALUE OF STOCK OPTIONS

Fresenius Group's determination of the fair value of grants is based on the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for estimating the fair values of options that have no vesting restrictions. Option valuation models require the input of highly subjective assumptions including expected stock price volatility. Fresenius Group's assumptions are based upon its past experiences, market trends and the experiences of other entities of the same size and in similar industries. Fresenius Group's stock options have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option.

The weighted-average assumptions for the calculation of the fair value of grants made during the years 2007 and 2006 are as follows:

	2007	2006
Expected dividend yield	**0.94 %**	1.50 %
Risk-free interest rate	**4.48 %**	3.80 %
Expected volatility	**29.06 %**	35.50 %
Expected life of options	**5.3 years**	5.3 years
Exercise price per option in €	**56.74**	40.45[1]

[1] Before the share split became effective on January 24, 2007, the exercise price per option was € 121.36.

The expected volatility results from the historical volatility calculated over the expected life of options. The volatility was determined when the fair value of stock options was calculated for the first time and since then has been controlled every year upon issuance of a new tranche.

FRESENIUS SE STOCK OPTION PLANS

Description of the Fresenius SE stock option plans in place

On December 31, 2007, Fresenius SE had two stock option plans in place; the Fresenius AG stock option based plan of 1998 (1998 Plan) and the currently active plan from the year 2003 which is based on convertible bonds (2003 Plan). The latter is the only plan under which options in the form of convertible bonds were granted during 2007.

Under the 2003 Plan, 1,440,000 convertible bonds with a par value of € 2.56 each could be granted in total until the entry of the share split on January 24, 2007 (see Note 1.II, Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital). After the share split (ratio 1 (old) : 3 (in the future)), 1,080,000 convertible bonds with a par value of € 1.00 each could be granted in total during 2007. The bonds were granted exclusively to the members of the Management Board of Fresenius SE, to members of the management of affiliated companies, to employees of Fresenius SE and to employees of its affiliated companies. Members of the Management Board and employees of FMC-AG & Co. KGaA and its affiliated companies which are only affiliated with Fresenius SE through FMC-AG & Co. KGaA were excluded. The convertible bonds entitle to the subscription of up to 1,260,000 bearer ordinary shares and up to 1,260,000 non-voting bearer preference shares of Fresenius SE. Members of the Management Board of Fresenius SE were entitled, in total, up to 560,000 convertible bonds giving the right to subscribe up to 280,000 bearer ordinary shares and the same number of non-voting bearer preference shares. Employees were entitled, in total, up to 1,960,000 convertible bonds giving the right to subscribe up to 980,000 bearer ordinary shares and the same number of non-voting bearer preference shares.

The convertible bonds bear interest at a rate of 5.5 %. Except for the members of the Management Board, eligible employees may purchase the bonds by issuing a non-recourse note with terms corresponding to the terms of the convertible bond. Fresenius SE has the right to offset its obligation on a bond against the employee's obligation on the related note; therefore, the convertible bond obligations and employee note receivables represent stock options issued by Fresenius SE and are not reflected in the consolidated financial statements. The bonds expire in ten years and one third of them can be exercised beginning after two, three and four years after the grant date, respectively. Bonds which were not financed by a note from Fresenius SE are recognized as a liability on Fresenius Group's consolidated balance sheet.

Upon issuance of the option, the employees have the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target corresponds to the stock exchange quoted price of the ordinary or preference shares upon the first time the stock exchange quoted price exceeds the initial value (after the share split 1/3 of the initial value) by at least 25 %. If converted after the share split the conversion price which entitles to three ordinary shares or preference shares, respectively, is equal to the triple of one third of the initial value. The initial value is the joint average stock exchange price of bearer ordinary shares and non-voting bearer preference shares during the last 30 trading days prior to the date of grant. The conversion price of options without a stock price target is the initial value. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15 % less than if the employee elected options subject to the stock price target. Each convertible bond granted after the share split entitles to subscribe one ordinary or preference share, subject to payment of the conversion price. Bonds granted and converted prior to the share split were entitled to subscribe one ordinary or preference share, conversion after the share split entitles to three ordinary or preference shares. Up to 20 % of the total amount available for the issuance of awards under the 2003 Plan could be issued each year.

During 1998, Fresenius AG adopted the 1998 Plan for members of the Management Board and executive employees. This stock incentive plan was replaced by the 2003 Plan and no options have been granted since 2003. Under the 1998 Plan, eligible employees have the right to acquire ordinary and preference shares of Fresenius SE. Options granted under this plan have a ten-year term, and one third of them vest on each of the second, third and fourth anniversary of the grant date. Prior to the share split, one ordinary or one preference share could be acquired for each option. After the share split in 2007, each option entitles to acquire three ordinary or preference shares. The maximum number of ordinary or preference shares to be issued to the members of the Management Board or executive employees has been adjusted accordingly.

Transactions during the year 2007

In 2007, Fresenius SE awarded 913,420 stock options, including 131,580 options to members of the Management Board of Fresenius SE, at a weighted-average exercise price of € 56.74, a weighted-average fair value of € 19.22 each and a total fair value of € 18 million, one third of which will be amortized evenly over two, three and four years, respectively.

During the fiscal year 2007, Fresenius SE received € 21 million from the exercise of 810,894 stock options. The average stock price at the exercise date was € 54.61 for ordinary shares and € 55.78 for preference shares. The non-cash benefit of options exercised in 2007 was € 24 million.

At December 31, 2007, out of 856,908 outstanding and exercisable options issued under the 1998 Plan, 25,800 were held by the members of the Fresenius SE Management Board. The number of outstanding stock options issued under the 2003 Plan was 3,387,084, of which 787,280 were exercisable. The members of the Fresenius SE Management Board held 541,320 options.

Stock option transactions are summarized as follows:

Ordinary shares December 31	Number of options	Weighted-average exercise price in €	Number of options exercisable
Balance 2005	2,295,885	24.56	1,085,940
Granted	451,380	39.98	
Exercised	563,898	25.87	
Forfeited	92,961	24.42	
Balance 2006	2,090,406	27.97	855,960
Granted	456,710	56.90	
Exercised	405,447	23.90	
Forfeited	19,673	32.51	
Balance 2007	2,121,996	34.93	822,094

Preference shares December 31	Number of options	Weighted-average exercise price in €	Number of options exercisable
Balance 2005	2,295,885	26.97	1,085,940
Granted	451,380	39.98	
Exercised	563,898	25.87	
Forfeited	92,961	24.42	
Balance 2006	2,090,406	29.21	855,960
Granted	456,710	56.58	
Exercised	405,447	25.68	
Forfeited	19,673	33.10	
Balance 2007	2,121,996	35.74	822,094

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at December 31, 2007:

Options for ordinary shares

	Options outstanding			Options exercisable		
Range of exercise price in €	Number of options	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Number of options	Weighted-average remaining contractual life in years	Weighted-average exercise price in €
10.01–15.00	153,756	5.50	13.65	153,756	5.50	13.65
15.01–20.00	142,557	4.59	19.64	142,557	4.59	19.64
20.01–25.00	262,232	5.58	22.05	161,603	5.01	22.10
25.01–30.00	391,391	6.90	28.40	132,627	5.81	28.07
30.01–35.00	220,260	3.11	30.72	220,260	3.11	30.72
35.01–40.00	481,836	8.39	39.26	11,291	7.50	35.51
45.01–50.00	13,254	8.50	48.81	0		
55.01–60.00	441,433	9.50	56.43	0		
70.01–75.00	15,277	9.50	70.54	0		
	2,121,996	7.00	34.93	822,094	4.68	23.55

Options for preference shares

	Options outstanding			Options exercisable		
Range of exercise price in €	Number of options	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Number of options	Weighted-average remaining contractual life in years	Weighted-average exercise price in €
10.01–15.00	167,169	5.50	12.04	167,169	5.50	12.04
15.01–20.00	214,178	6.50	19.00	113,549	6.50	19.00
20.01–25.00	129,144	4.50	21.13	129,144	4.50	21.13
25.01–30.00	439,445	6.31	28.91	180,681	4.66	28.31
30.01–35.00	125,073	3.58	34.73	125,073	3.58	34.73
35.01–40.00	50,724	7.50	38.52	11,291	7.50	38.52
40.01–45.00	526,299	7.41	40.83	95,187	2.50	42.12
50.01–55.00	13,254	8.50	53.01	0		
55.01–60.00	441,433	9.50	56.11	0		
70.01–75.00	15,277	9.50	70.14	0		
	2,121,996	7.00	35.74	822,094	4.68	25.30

At December 31, 2007, total unrecognized compensation costs related to non-vested options granted under the Fresenius SE plans were € 18 million. These costs are expected to be recognized over a weighted-average period of 2.2 years.

FRESENIUS MEDICAL CARE STOCK OPTION PLANS

Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006

On May 9, 2006, as amended on May 15, 2007, the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 (2006 Plan) was established by resolution of FMC-AG & Co. KGaA's Annual General Meeting with a conditional capital increase up to € 15 million subject to the issue of up to 15 million no par value bearer ordinary shares with a nominal value of € 1.00 each. Under the 2006 Plan, up to 15 million options can be issued, each of which can be exercised to obtain one ordinary share, with up to three million options designated for members of the Management Board of FMC Management AG, the General Partner, up to three million options designated for members of management boards of direct or indirect subsidiaries of FMC-AG & Co. KGaA and up to nine million options designated for managerial staff members of FMC-AG & Co. KGaA and such subsidiaries. With respect to participants who are members of the FMC Management AG's Management Board, its Supervisory Board has sole authority to grant stock options and exercise other decision making powers under the 2006 Plan (including decisions regarding certain adjustments and forfeitures). The FMC Management AG has such authority with respect to all other participants in the 2006 Plan.

Options under the 2006 Plan can be granted the last Monday in July and/or the first Monday in December. The exercise price of options granted under the 2006 Plan shall be the average closing price on the Frankfurt Stock Exchange of FMC-AG & Co. KGaA's ordinary shares during the 30 calendar days immediately prior to each grant date. Options granted under the 2006 Plan have a seven-year term but can be exercised only after a three-year vesting period. The vesting of options granted is subject to satisfaction of success targets measured over a three-year period from the grant date. For each such year, the success target is achieved if FMC-AG & Co. KGaA's adjusted basic income per ordinary share (EPS), as calculated in accordance with the 2006 Plan, increases by at least 8 % year over year during the vesting period, beginning with EPS for the year of grant as compared to EPS for the year preceding such grant. Calculation of EPS under the 2006 Plan excluded, among other items, the costs of the transformation of Fresenius Medical Care's legal form and the conversion of preference shares into ordinary shares. For each grant, one-third of the options granted are forfeited for each year in which EPS does not meet or exceed the 8 % target. The success target for 2007 and 2006 was met. Vesting of the portion or portions of a grant for a year or years in which the success target is met does not occur until completion of the entire three-year vesting period. Upon exercise of vested options, FMC-AG & Co. KGaA has the right to issue ordinary shares it owns or that it purchases in the market in place of increasing capital by the issuance of new shares.

Options granted under the 2006 Plan to US participants are non-qualified stock options under the United States Internal Revenue Code of 1986, as amended. Options under the 2006 Plan are not transferable by a participant or a participant's heirs, and may not be pledged, assigned, or otherwise disposed of.

Fresenius Medical Care 2001 International Stock Option Plan

Under the Fresenius Medical Care 2001 International Stock Incentive Plan (2001 Plan), options in the form of convertible bonds with a principal of up to € 12 million were issued to the members of the Management Board and other employees of FMC-AG & Co. KGaA representing grants for up to 12 million non-voting preference shares. The convertible bonds have a par value of € 1.00 and bear interest at a rate of 5.5 %. Except for the members of the Management Board, eligible employees may purchase the bonds by issuing a non-recourse note with terms corresponding to the terms of and secured by the bond. FMC-AG & Co. KGaA has the right to offset its obligation on a bond against the employee's obligation on the related note; therefore, the convertible bond obligations and employee note receivables represent stock options issued by FMC-AG & Co. KGaA and are not reflected in the consolidated financial statements. The options expire ten years from issuance and can be exercised beginning two, three or four years after issuance. Compensation costs related to awards granted under this plan are amortized on a straight-line basis over the vesting period for each separately vesting portion of the awards. Bonds issued to Management Board members who did not issue a note to FMC-AG & Co. KGaA are recognized as a liability on the Group's balance sheet.

Upon issuance of the option, the employees had the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target corresponds to the stock exchange quoted price of the preference shares upon the first time the stock exchange quoted price exceeds the initial value by at least 25 %. The initial value is the average price of the preference shares during the last 30 trading days prior to the date of grant. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15 % less than if the employee elected options subject to the stock price target. The conversion price of the options without a stock price target is the initial value. Each option entitles the holder thereof, upon payment of the respective conversion price, to acquire one preference share. Effective May 2006, no further grants can be issued under the 2001 Plan and no options were granted under the 2001 Plan during 2006 and 2007.

Transactions during the year 2007

During 2007, Fresenius Medical Care awarded 2,395,962 options, including 398,400 to members of the Management Board of FMC Management AG, at a weighted-average exercise price of € 33.91, a weighted-average fair value of € 9.71 each and a total fair value of € 23 million, which will be amortized on a straight-line basis over the three-year vesting period.

During 2007, FMC-AG & Co. KGaA received € 28 million from the exercise of stock options and € 6 million from a related tax benefit. The intrinsic value of options exercised in 2007 was € 20 million.

At December 31, 2007, the Management Board members of the FMC Management AG, held 1,922,628 stock options for ordinary shares and employees of FMC-AG & Co. KGaA held 8,050,813 stock options for ordinary shares and 275,426 stock options for preference shares under the various stock-based compensation plans of Fresenius Medical Care.

The table below provides reconciliations for options outstanding at December 31, 2007 as compared to December 31, 2006.

	Number of options in thousand	Weighted-average exercise price in €
Balance at December 31, 2006 (options for ordinary shares)	**9,222**	**20.39**
Granted	2,396	33.91
Exercised	1,337	20.18
Forfeited	308	27.64
Balance at December 31, 2007 (options for ordinary shares)	**9,973**	**26.64**
Balance at December 31, 2006 (options for preference shares)	**368**	**16.19**
Exercised	67	15.10
Forfeited	26	19.23
Balance at December 31, 2007 (options for preference shares)	**275**	**16.16**

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at December 31, 2007:

	Number of options in thousand	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Aggregate intrinsic value in million €
Options for ordinary shares	3,335	4.88	20.40	54
Options for preference shares	202	3.58	14.77	4

At December 31, 2007, total unrecognized compensation costs related to non-vested options granted under all plans were € 34 million. These costs are expected to be recognized over a weighted-average period of 1.6 years.

33. RELATED PARTY TRANSACTIONS

Dr. Gerhard Rupprecht, a member of the Supervisory Board of Fresenius SE, is a member of the management board of Allianz SE and the chairman of the management board of Allianz Deutschland AG. Dr. Gerd Krick, chairman of the Supervisory Board of Fresenius SE, is a member of the supervisory board of Allianz Private Krankenversicherungs-AG. In 2007, the Fresenius Group paid € 6 million for insurance premiums to Allianz.

Dr. Gerd Krick is a member of the advisory board of HDI Haftpflichtverband der deutschen Industrie V.a.G. that belongs to the Talanx Group. In 2007, this group received € 9 million for insurance premiums.

Dr. Dieter Schenk, deputy chairman of the Supervisory Board of Fresenius SE, is a partner in the law firm Nörr Stiefenhofer Lutz that provides legal services to the Fresenius Group. In 2007, the Fresenius Group paid this law firm € 1 million for services rendered.

34. SUBSEQUENT EVENTS

As of January 1, 2008, Fresenius has reorganized its hospital business. The business segment Fresenius ProServe has been replaced by the two new business segments – Fresenius Helios and Fresenius Vamed. As part of the new organizational structure, Dr. Francesco De Meo and Dr. Ernst Wastler have joined the Management Board of Fresenius SE as of January 1, 2008. Dr. De Meo is responsible for the business segment Fresenius Helios. Dr. Wastler is in charge of the business segment Fresenius Vamed.

Other than that, there were no significant changes in the Group position or environment sector since the end of the year of 2007. At present, the Fresenius Group is not planning to carry out any significant changes in its structure, administration or legal form or in the area of personnel.

NOTES IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

35. COMPENSATION REPORT

The compensation report of Fresenius SE summarizes the principles applied for the determination of the compensation of the members of the Management Board of Fresenius SE and explains the amounts and structure of the Management Board compensation. The compensation report is based on the recommendations of the German Corporate Governance Code and also includes the disclosures in accordance with the German Commercial Code extended by the German Act on the Disclosure of Management Board Compensation.

COMPENSATION OF THE MANAGEMENT BOARD OF FRESENIUS SE

The basis for the compensation of the Management Board was determined by the Supervisory Board of Fresenius SE, its structure and amount by the personnel committee of the Supervisory Board of Fresenius SE. The personnel committee is composed of the Supervisory Board members Dr. Gerd Krick, Dr. Karl Schneider and Wilhelm Sachs.

The objective of the compensation system is to enable the members of the Management Board to participate in the development of the business relative to their duties and performance and the successes in managing the economic and the financial position of the Company taking into account its comparable environment.

The compensation of the Management Board is, as a whole, performance oriented and consisted of three elements in the fiscal year 2007:

- non-performance-related compensation (basic salary)
- performance-related compensation (variable bonus)
- components with long-term incentive effects (stock options, convertible bonds)

Furthermore, one member of the Management Board had a pension commitment, in the reporting period.

The design of the individual components is based on the following criteria:

The non-performance-related compensation was paid in twelve monthly installments as basic salary in the fiscal year 2007. In addition, the members of the Management Board received additional benefits consisting mainly of insurance premiums, the private use of company cars, special payments such as rent supplements and refunds of charges and contributions to pension and health insurance.

The performance-related compensation will also be granted for the fiscal year 2007 as a variable bonus. The amount of the bonus in each case depends on the achievement of the individual targets relating to the net income of the Fresenius Group and its segments. For the total performance-related compensation, the maximum achievable bonus is fixed.

For the fiscal years 2007 and 2006, the amount of cash payment of the Management Board of Fresenius SE consisted of the following:

in thousand €	Non-performance-related compensation				Performance-related compensation		Cash compensation (without long-term incentive components)	
	Salary		Other[1)]		Bonus			
	2007	2006	2007	2006	2007	2006	2007	2006
Dr. Ulf M. Schneider	800	600	41	41	952	954	1,793	1,595
Rainer Baule	425	425	38	43	801	825	1,264	1,293
Andreas Gaddum	325	325	86	86	501	498	912	909
Dr. Jürgen Götz (since July 1, 2007)	162		10		157		329	
Dr. Ben Lipps[2)]	766	836	230	150	1,647	1,627	2,643	2,613
Stephan Sturm	425	425	86	87	701	756	1,212	1,268
Total	**2,903**	2,611	**491**	407	**4,759**	4,660	**8,153**	**7,678**

[1)] Includes insurance premiums, private use of company cars, contributions to pension and health insurance and other benefits.
[2] Dr. Ben Lipps receives his compensation only by Fresenius Medical Care, of which Fresenius SE held 35.95 % of the total subscribed capital. As Dr. Ben Lipps is a member of the Management Board of Fresenius SE, his compensation has to be included in the compensation report of the Fresenius Group.

In the fiscal year 2007, convertible bonds and stock options based on the Fresenius AG Stock Option Plan 2003 and the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 were granted as components with long-term incentive effects. The principles of both plans are described in more detail in Note 32, Stock options.

For the fiscal years 2007 and 2006, the number and value of convertible bonds and stock options issued is shown in the following table. The data contained therein take into account the changes that resulted from the share split of Fresenius SE resolved by the Extraordinary General Meeting on December 4, 2006 and implemented by the Company with effect as of January 24, 2007.

	Long-term incentive components			
	Convertible bonds[1)]			
	Number		Value in thousand €	
	2007	2006	2007	2006
Dr. Ulf M. Schneider	43,860	43,860	838	700
Rainer Baule	21,930	21,930	419	350
Andreas Gaddum	21,930	21,930	419	350
Dr. Jürgen Götz (since July 1, 2007)	21,930		419	
Dr. Ben Lipps	99,600	99,600	967	985
Stephan Sturm	21,930	21,930	419	350
Total	**231,180**	209,250	**3,481**	2,735

1) Convertible bonds that were granted in 2007 and 2006 under the stock option plan of Fresenius SE.
Dr. Ben Lipps received stock options under the Fresenius Medical Care stock option plan.

The stated values of the convertible bonds and stock options granted to members of the Management Board in the fiscal year 2007 correspond to their fair value at the time of grant, namely a value of € 19.11 (2006: € 15.97) per convertible bond of Fresenius SE and € 9.71 (2006: € 9.89) per stock option of FMC-AG & Co. KGaA. The exercise price for the granted convertible bonds of Fresenius SE is € 56.27 (2006: € 40.13) and for the granted stock options of FMC-AG & Co. KGaA is € 33.91 (2006: 30.49).

As the financial targets of the year 2007 were achieved, Dr. Ben Lipps is entitled to a stock-based compensation in an amount of € 910 thousand (2006: € 791 thousand). The entitlement is based on the development of the ordinary share of Fresenius Medical Care and has a three years vesting period.

At the end of the fiscal year 2007, the members of the Management Board held a total of 567,120 (2006: 446,340) stock options and convertible bonds of Fresenius SE and 824,280 (2006: 760,149) stock options and convertible bonds of FMC-AG & Co. KGaA.

The following table shows the total compensation for the years 2007 and 2006:

	Cash compensation (without long-term incentive components)		Long-term incentive components		Total compensation (including long-term incentive components)	
in thousand €	**2007**	2006	**2007**	2006[1]	**2007**	2006[1]
Dr. Ulf M. Schneider	**1,793**	1,595	**838**	700	**2,631**	2,295
Rainer Baule	**1,264**	1,293	**419**	350	**1,683**	1,643
Andreas Gaddum	**912**	909	**419**	350	**1,331**	1,259
Dr. Jürgen Götz (since July 1, 2007)	**329**		**419**		**748**	
Dr. Ben Lipps	**2,643**	2,613	**1,877**	1,776	**4,520**	4,389
Stephan Sturm	**1,212**	1,268	**419**	350	**1,631**	1,618
Total	**8,153**	7,678	**4,391**	3,526	**12,544**	11,204

[1] Prior year values have been reclassified to conform with the current year's presentation which corresponds to the values at the grant date. In 2006, expenses recognized were included in the total compensation.

The components with long-term incentive effect can be exercised only after the expiry of the specified vesting period. Their value is recognized over the vesting period as expense in the respective fiscal year. The expenses attributable to the fiscal years 2007 and 2006 are stated in the following table.

	Expenses for long-term incentive components	
in thousand €	**2007**	2006
Dr. Ulf M. Schneider	**597**	444
Rainer Baule	**298**	224
Andreas Gaddum	**334**	233
Dr. Jürgen Götz (since July 1, 2007)	**75**	
Dr. Ben Lipps	**837**	385
Stephan Sturm	**334**	233
Total	**2,475**	1,519

The non-performance related compensation components and the basic structures of the performance-related compensation components are agreed in the service agreements with the individual Management Board members. The convertible bonds and stock options are granted annually by the personnel committee of the Supervisory Board.

COMMITMENTS TO MEMBERS OF THE MANAGEMENT BOARD IN THE EVENT OF THE TERMINATION OF THEIR APPOINTMENT

There are individual contractual pension commitments for the Management Board members Rainer Baule and Stephan Sturm (since 2008). With regard to these pension commitments, the Fresenius Group had pension obligations of € 2,028 thousand as of December 31, 2007 (2006: € 1,753 thousand). The addition to pension liability in the fiscal year 2007 amounted to € 275 thousand (2006: € 319 thousand). Each of the pension commitments provides a pension and survivor benefit, depending on the amount of the most recent basic salary, from the 63rd year of life, or, in the case of termination because of professional or occupational incapacity, from the time of ending active work. The starting percentage of 30 % increases with every year of service by 1.5 percentage points, 45 % being the attainable maximum. 30 % of the gross amount of any later income from an occupation of the Management Board member is set-off against the pension.

With the Management Board member Dr. Ben Lipps, there is an individual agreement, instead of a pension provision, to the effect that, taking account of a competitive restriction after the ending of the service agreement between him and Fresenius Medical Care Management AG, he can, for a period of ten years, act in a consultative capacity for the Company. The consideration to be granted annually by Fresenius Medical Care Management AG in return would amount to approximately 46 % of the non-performance related compensation components paid to him in the fiscal year 2007.

At December 31, 2007, Andreas Gaddum resigned from the Management Board of Fresenius SE. Until the expiration of his service agreement on June 30, 2008, he will receive his stipulated non-performance-related compensation in an amount of € 162,500 as well as related benefits and a performance-related compensation on a pro rata basis according to the service agreement. For the period from July 1, 2008 to June 30, 2009, Andreas Gaddum will obtain a waiting allowance of € 262,500 for the agreed non-competition clause.

The service agreements of the members of the Management board contain no express provisions for the case of a change of control and for the event of the ending of their service agreement.

MISCELLANEOUS

In the fiscal year 2007, no loans or advance payments of future compensation components were made to members of the Management Board of Fresenius SE.

As far as legally permitted, Fresenius SE undertook to indemnify the members of the Management Board against claims against them arising out of their work for the Company and its affiliates, if such claims exceed their responsibilities under German law. To secure such obligations, the Company concluded a Directors' & Officers' insurance with an appropriate excess. The indemnity applies for the time in which each member of the Management Board is in office and for claims in this connection after the ending of the membership of the Management Board in each case.

To former members of the Management Board and their surviving dependents € 483 thousand and € 588 thousand was paid in the years 2007 and 2006, respectively. The benefit obligation for these persons amounted to € 9,870 thousand in 2007 (2006: € 9,696 thousand).

36. INFORMATION ON THE SUPERVISORY BOARD

The Supervisory Board appoints the members of the Management Board and supervises and advises the Management Board in managing the Company. However, the Supervisory Board is fundamentally prohibited from managing the Company in any way. The compensation of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in Section 14 of the Articles of Association of Fresenius SE. Compensation for the time after the conversion into a SE at July 13, 2007 is pending on the approval at the Annual General Meeting in May 2008. Each member of the Supervisory Board shall receive a fixed compensation of € 13 thousand. The members of the Audit Committee and the Personnel Committee of the Supervisory Board receive an additional € 10 thousand each and the Chairman of the committee a further € 10 thousand. For each full fiscal year, the remuneration increases by 10 % for each percentage point that the dividend paid on each ordinary share for that year (gross dividend according to the resolution of the Annual General Meeting) exceeds 3.6 % of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts are interpolated. The Chairman receives twice this amount and the deputies to the Chairman one and a half times the amount of a Supervisory Board member. All members of the Supervisory Board receive appropriate compensation for costs of travel and accommodation incurred in connection with their duties as members of the Supervisory Board. Fresenius SE provides to the members of the Supervisory Board insurance coverage in an adequate amount (relating to their function) and on an adequate excess amount basis.

For the years 2007 and 2006, the compensation for the members of the Supervisory Board of Fresenius SE were as follows:

	Fixed compensation		Compensation for commitee services		Variable compensation		Total compensation	
in thousand €	**2007[1)]**	2006	**2007[1)]**	2006	**2007[1)]**	2006	**2007[1)]**	2006
Dr. Gerd Krick	**14**	26	**16**	30	**89**	139	**119**	195
Dr. Dieter Schenk	**7**	13	**0**	0	**45**	69	**52**	82
Niko Stumpfögger (since July 16, 2007)	**0**		**0**		**0**		**0**	
Gerhard Herres (till July 13, 2007)	**7**	13	**0**	0	**45**	69	**52**	82
Dario Ilossi (since July 16, 2007)	**0**		**0**		**0**		**0**	
Konrad Kölbl (since July 16, 2007)	**0**		**0**		**0**		**0**	
Dr. Gabriele Kröner	**7**	13	**0**	0	**45**	69	**52**	82
Dr. Bernd Mathieu (till July 13, 2007)	**7**	13	**0**	0	**45**	69	**52**	82
Christel Neumann (till July 13, 2007)	**7**	13	**0**	0	**45**	69	**52**	82
Ilona Oesterle (till July 13, 2007)	**7**	13	**0**	0	**45**	69	**52**	82
Dr. Gerhard Rupprecht	**7**	13	**0**	0	**45**	69	**52**	82
Wilhelm Sachs	**7**	13	**0**	0	**45**	69	**52**	82
Dr. Karl Schneider	**7**	13	**5**	10	**45**	69	**57**	92
Stefan Schubert (since July 16, 2007)	**0**		**0**		**0**		**0**	
Rainer Stein (since July 16, 2007)	**0**		**0**		**0**		**0**	
Volker Weber (till July 13, 2007)	**10**	19	**11**	20	**67**	105	**88**	144
Dr. Bernhard Wunderlin	**7**	13	**11**	20	**45**	69	**63**	102
Total	**94**	175	**43**	80	**606**	934	**743**	1,189

1) Parts of the compensation for 2007 relates to the time before the conversion into a SE at July 13, 2007. The remaining compensation of 2007 is pending on the approval at the Annual General Meeting in May 2008.

37. D & O INSURANCE

Fresenius SE has concluded a consequential loss liability insurance policy (D & O insurance), on an excess amount basis, for the members of the Management Board and the Supervisory Board of Fresenius SE and for all representative bodies of affiliates in Germany and elsewhere. The D & O policy applies throughout the world and runs until the end of June 2008. The policy covers the legal defense costs of a member of a representative body when a claim is made and, where relevant, any damages to be paid which are covered by the policy.

38. AUDITOR'S FEES

In 2007 and 2006, fees for the auditor KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungs-gesellschaft, Berlin, and its affiliates were expensed as follows:

	2007		2006	
in million €	**Total**	**Germany**	Total	Germany
Audit fees	**11**	**4**	11	4
Audit-related fees	**1**	**–**	–	–
Tax consulting fees	**–**	**–**	1	–
Other fees	**–**	**–**	–	–
Total auditor's fees	**12**	**4**	12	4

39. CORPORATE GOVERNANCE

The members of the Management Boards and the Supervisory Boards of Fresenius SE and Fresenius Medical Care AG & Co. KGaA have submitted the Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) in accordance with the German Corporate Governance Code dated June 14, 2007 and made this permanently available to the shareholders.

40. PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The Management Board of Fresenius SE proposes to the Annual General Meeting that the earnings for 2007 of Fresenius SE be distributed as follows:

in €	
Payment of a dividend of € 0.66 per bearer ordinary share on the 77,582,385 ordinary shares entitled to dividend	**51,204,374.10**
Payment of a dividend of € 0.67 per bearer preference share on the 77,582,385 preference shares entitled to dividend	**51,980,197.95**
Balance to be carried forward	**71,422.23**
Retained earnings	**103,255,994.28**

41. RESPONSIBILITY STATEMENT

“To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.”

Bad Homburg v. d. H., February 22, 2008

The Management Board

Dr. U. M. Schneider	R. Baule	Dr. F. De Meo	
Dr. J. Götz	Dr. B. Lipps	S. Sturm	Dr. E. Wastler

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Fresenius Societas Europaea, Bad Homburg v. d. Höhe, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to §315a Abs. 1 HGB are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with §317 HGB (Handelsgesetzbuch "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with International Financial Reporting Standards (IFRS), as adopted by the EU, the additional requirements of German commercial law pursuant to §315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 22, 2008

KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft

Hölzl
German Public Auditor

Hommel
German Public Auditor

REPORT OF THE SUPERVISORY BOARD

In 2007, the Supervisory Board performed the duties assigned to it by law and by the Company's Articles of Association, regularly advising and monitoring the Management Board. It was closely involved in all decisions that were of major importance to the Group.

COOPERATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Carrying out its monitoring and advisory activities, the Supervisory Board was kept regularly informed by the Management Board – in a timely manner and comprehensively, both in writing and orally – about the overall business development, the economic and financial position, and the profitability of the Company and the Group, the corporate strategy and planning, the risk situation and compliance, and important business events. In all, the Supervisory Board convened seven times in 2007. The Supervisory Board of Fresenius AG held meetings in March and May. The constitutive meeting of the Supervisory Board of Fresenius SE also took place in May. A telephone conference was held in June. An extraordinary meeting of the Fresenius SE Supervisory Board took place in September. Two regular Supervisory Board meetings were then held in October and December 2007. Before each of the Supervisory Board's four regular meetings, detailed Management Board reports and comprehensive approval documents concerning the agenda were distributed to its members. At each of its regular meetings the Supervisory Board used the Management Board's reports as the basis for its extensive discussions about business development and important corporate decisions. All matters requiring Supervisory Board approval were submitted with sufficient time for proper scrutiny. After reviewing the relevant documents, and after detailed consultation with the Management Board, the Supervisory Board was able to give its approval regarding all matters submitted to it. The Supervisory Board was also informed about any important business events occurring between meetings and, in urgent cases, was requested to pass resolutions by written proceedings. In addition, the chairman of the Management Board informed in individual meetings the chairman of the Supervisory Board regularly about the latest business developments and forthcoming decisions. Every member of the Supervisory Board attended more than half of the Board meetings in 2007.

MAIN FOCUS OF THE SUPERVISORY BOARD'S ACTIVITIES

The Supervisory Board's monitoring and advisory activities were mainly focused on overall business operations as well as on business segment investments and acquisitions, and any related financing.

The Supervisory Board also closely pursued the conversion of Fresenius AG into a European Company (SE), which was listed in the Commercial Register on July 13, 2007, after the successful completion of the employee involvement procedure. The Supervisory Board was kept fully informed by the Management Board about the negotiations relating to this procedure.

The Supervisory Board also thoroughly reviewed and discussed all other significant business activities with the Management Board. It approved the budget for 2008 and the Group's medium-term planning, following a detailed review and discussions with the Management Board. At its regular meetings and those of the Audit Committee, the Supervisory Board also kept itself informed about the Group's risk situation and risk management activities as well as compliance.

CORPORATE GOVERNANCE

The further development of the corporate governance at Fresenius was reviewed by the Supervisory Board. On December 6, 2007, the Management Board and the Supervisory Board jointly issued a Declaration of Conformity in accordance with the German Corporate Governance Code in its version as of June 14, 2007.

For further information on corporate governance at Fresenius, please see the Corporate Governance Report issued jointly by the Management and Supervisory Boards on pages 30 to 33 of this Annual Report.

In the course of the conversion of Fresenius AG into a European Company (SE) the newly constituted Supervisory Board of Fresenius SE adopted new rules of procedure at its extraordinary meeting in September. These new rules of procedure take account of the changed legal framework applying to Fresenius SE.

The Supervisory Board also issued new rules of procedure for the Management Board of Fresenius SE. In addition to the necessary adjustments associated with the change of legal form to a SE, these rules of procedure also take account of the changes in the business distribution plan resulting from the reorganization of the Group's hospital operations. The former business segment Fresenius ProServe has been replaced by two new business segments, Fresenius Helios and Fresenius Vamed which previously formed Fresenius ProServe.

WORK OF THE COMMITTEES

The Personnel Committee, which is responsible, among other things, for concluding, amending, and terminating employment contracts with the members of the Management Board, held three meetings and one conference call.

The Audit Committee held four meetings. The main focus of its activities was on the preliminary audit of the financial statements and the consolidated financial statements for 2006 and discussions with the auditors about their report and the terms of reference of the audit.

The Audit Committee also reviewed the 2007 quarterly reports and the risk management system.

After their own meetings, the committee chairmen reported regularly to the following Supervisory Board meeting on the work of their committees.

The Nomination Committee convened a number of times and deliberated on the Supervisory Board's proposals to the Annual General Meeting regarding the nomination of the Supervisory Board.

The Mediation Committee has ceased to exist since the German Co-determination Act (MitbestG), which provided for this committee, no longer applies to Fresenius SE.

Information on the present composition of the committees can be found on pages 224 and 225 of this Annual Report.

PERSONNEL – NOMINATION OF THE MANAGEMENT AND SUPERVISIORY BOARDS

The mandates of the members of the Supervisory Board ended with Fresenius AG's conversion to a SE. We thank the members who left the Supervisory Board for their dedication to Fresenius.

The conversion of Fresenius AG to a SE has not altered the size of the Supervisory Board. It continues to have twelve members, with six shareholder representatives and six employee representatives.

The six shareholder representatives on the first Supervisory Board of Fresenius SE were appointed according to the Fresenius SE statutes. These formed an integral part of the conversion plan agreed by the General Meeting on December 4, 2006. The shareholder representatives on the first Supervisory Board of Fresenius SE are Dr. Gabriele Kröner, Dr. Gerd Krick, Dr. Gerhard Rupprecht, Dr. Dieter Schenk, Dr. Karl Schneider and Dr. Bernhard Wunderlin; there have been no changes with respect to the composition of the former Supervisory Board of Fresenius AG.

The employee representatives on the first Supervisory Board of Fresenius SE were named in the Agreement for Employee Involvement in Fresenius SE of July 13, 2007, and were officially appointed by the Municipal Court of Bad Homburg v.d.H. on July 16, 2007. The employee representatives on the first Supervisory Board of Fresenius SE are Mr. Dario Ilossi, Mr. Konrad Kölbl, Mr. Wilhelm Sachs, Mr. Stefan Schubert, Mr. Rainer Stein and Mr. Niko Stumpfögger.

For the first time, employee representatives in EU member states outside Germany have become members of the Supervisory Board of Fresenius SE, namely Mr. Ilossi from Italy and Mr. Kölbl from Austria.

At its constitutive meeting in May 2007 the Supervisory Board elected Dr. Gerd Krick as its chairman. Dr. Dieter Schenk, who was nominated by the shareholder representatives, was elected as deputy chairman. The employee representatives did not attend the constitutive meeting in May 2007, as they were only appointed in July 2007. Mr. Niko Stumpfögger, nominated by the employee representatives, was then elected as a further deputy chairman in the extraordinary meeting in September.

The Supervisory Board of Fresenius AG appointed Dr. Jürgen Götz as a member of the Management Board as from July 1, 2007 with the responsibility for legal, compliance and personnel affairs. He took over the responsibility for personnel affairs from Mr. Stephan Sturm, who continues to serve as Chief Financial Officer of Fresenius SE.

The mandates of the members of the Management Board of Fresenius AG also ended with the change of legal form to a SE. All the members of the Management Board of Fresenius AG in office at the time the conversion took effect on July 13, 2007, were reappointed by the newly constituted Supervisory Board of Fresenius SE.

Further, with the reorganization of the Group's hospital operations, the Supervisory Board of Fresenius SE appointed Dr. Francesco De Meo, responsible for the business segment Fresenius Helios, and Dr. Ernst Wastler, responsible for the business segment Fresenius Vamed, as members of the Management Board of Fresenius SE as from January 1, 2008. As a result of the reorganization, Mr. Andreas Gaddum, the member of the Management Board responsible for the former business segment Fresenius ProServe, resigned from the Company as of December 31, 2007.

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The accounting records, the financial statements prepared according to the German Commercial Code (HGB) and the Management Report of Fresenius SE (formerly Fresenius AG) for 2007 were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. They were elected as auditors at Fresenius AG's Annual General Meeting on May 16, 2007 and were subsequently commissioned by the Supervisory Board. The auditors issued their unqualified audit opinion for these statements. The same applies to the consolidated financial statements of Fresenius SE (formerly Fresenius AG), which were prepared according to IFRS accounting principles, and the US GAAP statements, which were prepared voluntarily.

Management Reports were added to the consolidated financial statements. The financial statements, the consolidated financial statements, the Management Reports and the auditors' reports were submitted to each member of the Supervisory Board of Fresenius SE within the required time. The Supervisory Board noted and approved the auditors' findings. The Supervisory Board's own review found no objections to the financial statements of Fresenius SE (formerly Fresenius AG) or the consolidated financial statements. The Supervisory Board agrees with the Management Reports and the statements contained therein with respect to future development.

At its meeting on March 10, 2008, the Supervisory Board approved the financial statements of Fresenius SE (formerly Fresenius AG) for the fiscal year 2007 as presented by the Management Board, thereby adopting them as official. The Supervisory Board also approved the consolidated financial statements of Fresenius SE (formerly Fresenius AG) prepared according to IFRS standards and the consolidated financial statements prepared voluntarily according to US GAAP for 2007.

The auditors delivered a detailed report on the results of the audit during this meeting. The auditors attended all four regular meetings of the Supervisory Board and all meetings of the Audit Committee.

The Supervisory Board concurs with the proposal by the Management Board on the appropriation of the 2007 retained earnings.

The Supervisory Board would like to thank the Management Board and all employees for their achievements and commitment during the fiscal year 2007.

Bad Homburg v.d.H., March 10, 2008

The Supervisory Board

Dr. Gerd Krick

Chairman

Report of the Supervisory Board

MANAGEMENT BOARD

Dr. Ulf M. Schneider

Frankfurt am Main

Chairman

Corporate Offices
Supervisory Board
Fresenius Kabi AG (Chairman)
Fresenius Medical Care Management AG (Chairman)
HELIOS Kliniken GmbH (Chairman)
Eufets AG (Chairman)
Fresenius Kabi Austria GmbH, Austria
Fresenius Kabi España S.A., Spain
Fresenius Medical Care Groupe France S.A., France (Chairman)
Fresenius HemoCare Netherlands B.V., Netherlands
Board of Directors
FHC (Holdings), Ltd., Great Britain

Rainer Baule

Ettlingen

Business Segment Fresenius Kabi

Corporate Offices
Supervisory Board
Fresenius Kabi Austria GmbH, Austria (Chairman)
Fresenius HemoCare Netherlands B.V., Netherlands (Chairman)
Fresenius Kabi España S.A., Spain
Calea Ltd., Canada
Administrative Board
Fresenius Kabi Groupe France S.A., France
Board of Directors
FHC (Holdings), Ltd., Great Britain
Labesfal - Laboratórios Almiro, S.A., Portugal

Dr. Francesco De Meo

(since January 1, 2008)

Petersberg

Business Segment Fresenius Helios

Corporate Offices
Supervisory Board
HELIOS Klinikum Bad Saarow GmbH (Chairman, since Juli 4, 2007)
HELIOS Klinikum Emil von Behring GmbH (Chairman, since Januar 1, 2008)
HELIOS Kliniken Schwerin GmbH (Chairman, since November 24, 2007)

Andreas Gaddum

(until December 31, 2007)

Mainz

Business Segment Fresenius ProServe

Corporate Offices
Supervisory Board
HELIOS Kliniken GmbH (until December 31, 2007)
Vamed AG, Austria
Wittgensteiner Kliniken GmbH (Chairman, until November 8, 2007)

Dr. Jürgen Götz

(since July 1, 2007)

Bad Soden am Taunus

Chief Legal and Compliance Officer, and Labor Relations Director

Corporate Offices
Supervisory Board
Wittgensteiner Kliniken GmbH (Chairman, since November 8, 2007)
HELIOS Kliniken GmbH (since May 11, 2007)
Eufets AG (until September 15, 2007)

Dr. Ben Lipps

Boston, Massachusetts (USA)

Business Segment Fresenius Medical Care

Corporate Offices
Management Board
Fresenius Medical Care Management AG (Chairman)

Stephan Sturm

Hofheim am Taunus

Chief Financial Officer

Corporate Offices
Supervisory Board
Fresenius Kabi AG
HELIOS Kliniken GmbH
Wittgensteiner Kliniken GmbH
Fresenius HemoCare Netherlands B.V., Netherlands
Board of Directors
FHC (Holdings), Ltd., Great Britain
Labesfal - Laboratórios Almiro, S.A., Portugal
Fresenius Kabi España S.A., Spain

Dr. Ernst Wastler

(since Januar 1, 2008)

Linz, Austria

Business Segment Fresenius Vamed

Corporate Offices
Supervisory Board
Vamed-KMB Krankenhausmanagement und Betriebsführungsges. m. b. H. (Chairman)
Charité CFM Facility Management GmbH (Deputy Chairman)

SUPERVISORY BOARD

Dr. Gerd Krick

Königstein
Former Chairman of the Management Board of Fresenius AG
Chairman

Chairman of the Personnel Committee
Chairman of the Nomination Committee (since October 16, 2007)
Member of the Audit Committee
Member of the Mediation Committee (until July 13, 2007)

Offices
Supervisory Board
Fresenius Medical Care AG & Co. KGaA (Chairman)
Fresenius Medical Care Management AG
Vamed AG, Austria (Chairman)
Allianz Private Krankenversicherungs-AG
Advisory Board
HDI Haftpflichtverband der deutschen Industrie V.a.G.
Board of Directors
Adelphi Capital Europe Fund, Cayman Islands (until December 31, 2007)

Gerhard Herres

(until July 13, 2007)
Beckingen-Haustadt
Member of the Trade Union Deutscher Handels- und Industrieangestellten Verband im CGB
Member of the Works Council St. Wendel plant

Dario Anselmo Ilossi

(since July 16, 2007)
Rome, Italy
Trade Union Officer FEMCA Cisl – Energy, Fashion and Chemicals

Konrad Kölbl

(since July 16, 2007)
Hof am Leithagebirge, Austria
Member of the Manual Workers' Works Council VAMED-KMB Krankenhausmanagement und Betriebsführungsges. m.b.H.
Chairman of the Group Works Council Vamed AG
Member of the SE-Works Council of Fresenius SE

Member of the Audit Committee (since September 15, 2007)

Corporate Offices
Supervisory Board
VAMED-KMB Krankenhausmanagement und Betriebsführungsges. m.b.H., Austria

Dr. Gabriele Kröner

Berg
Doctor

Offices
Management Board
Else Kröner-Fresenius-Stiftung (until December 31, 2007)

Dr. rer. nat. Bernd Mathieu

(until July 13, 2007)
Spiesen-Elversberg
Graduate chemist

Corporate Offices
Board of Directors
Fresenius Medical Care Japan Co. Ltd., Japan
Fresenius-Kawasumi Co. Ltd., Japan

Christel Neumann

(until July 13, 2007)
Schonungen
Chairlady of the Fresenius European Employee Forum (until July 13, 2007)
Chairlady of the Works Council Schweinfurt plant
Member of the General Works Council
Member of the SE-Works Council of Fresenius SE

Ilona Oesterle

(until July 13, 2007)
Waldsolms
Member of the Works Council Bad Homburg v.d.H.

Dr. Gerhard Rupprecht

Gerlingen
Member of the Management Board Allianz SE
Chairman of the Management Board Allianz Deutschland AG

Offices
Supervisory Board
Heidelberger Druckmaschinen AG
ThyssenKrupp Automotive AG (until December 8, 2006)
Allianz Lebensversicherungs-AG (Chairman)
Allianz Versicherungs-AG (Chairman)
Allianz Private Krankenversicherungs-AG (Chairman)
Allianz Beratungs- und Vertriebs-AG (Chairman)
Allianz First Life Insurance Co. Ltd., Korea

Wilhelm Sachs

Friedrichsdorf
Chairman of the General Works Council
Deputy Chairman of the Works Council Friedberg plant
Member of the Joint Works Council Fresenius SE/Friedberg plant
Member of the SE-Works Council of Fresenius SE

Member of the Personnel Committee (since September 15, 2007)
Member of the Mediation Committee (until July 13, 2007)

Dr. Dieter Schenk

Munich

Lawyer and tax consultant

Deputy Chairman

Member of the Nomination Committee (since October 16, 2007)
Member of the Mediation Committee (until July 13, 2007)

Offices
Supervisory Board
Fresenius Medical Care AG & Co. KGaA (Deputy Chairman)
Fresenius Medical Care Management AG (Deputy Chairman)
Gabor Shoes AG (Chairman)
Greiffenberger AG (Deputy Chairman)
NSL Consulting AG (Chairman)
TOPTICA Photonics AG (Chairman)
Administrative Board
Else Kröner-Fresenius-Stiftung (Chairman)

Dr. Karl Schneider

Mannheim

Former Spokesman Südzucker AG

Member of the Personnel Committee
Member of the Nomination Committee (since October 16, 2007)
Member of the Audit Committee (since September 15, 2007)
Member of the Mediation Committee (until July 13, 2007)

Offices
Administrative Board
Else Kröner-Fresenius-Stiftung (Deputy Chairman)

Stefan Schubert

(since July 16, 2007)

Limburg-Staffel

Chairman of the Works Councils of HELIOS Klinik Bad Schwalbach, HELIOS Klinik Idstein and of Kreisaltenzentrum Bad Schwalbach

Chairman of the Group Works Council of Wittgensteiner Kliniken GmbH

Member of the SE-Works Council of Fresenius SE

Corporate Offices
Supervisory Board
Wittgensteiner Kliniken GmbH

Rainer Stein

(since July 16, 2007)

Berlin

Chairman of the Group Works Council HELIOS Kliniken GmbH

Chairman of the SE-Works Council of Fresenius SE

Member of the Audit Committee (since September 15, 2007)

Corporate Offices
Supervisory Board
HELIOS Kliniken GmbH

Niko Stumpfögger

(since July 16, 2007)

Zeuthen

Secretary of the Trade Union ver.di, Betriebs- und Branchenpolitik im Bereich Gesundheit und Soziales

Deputy Chairman

Offices
Supervisory Board
HELIOS Kliniken GmbH

Volker Weber

(until July 13, 2007)

Löhnberg

Deputy Chairman (until July 13, 2007)

Full-time Secretary of the Trade Union IG Bergbau, Chemie, Energie

Member of the Personnel Committee (until July 13, 2007)
Member of the Audit Committee (until July 13, 2007)
Member of the Mediation Committee (until July 13, 2007)

Dr. Bernhard Wunderlin

Bad Homburg v.d.H.

Former Managing Director Harald Quandt Holding GmbH

Chairman of the Audit Committee

Offices
Supervisory Board
Equita Management GmbH
Advisory Board
Harald Quandt Holding GmbH (until June 30, 2007)
Marsh & McLennan Deutschland GmbH
Von Rautenkranz Nachfolger GbR

FINANCIAL CALENDAR

Report on 1st quarter 2008 Conference call Live webcast	April 30, 2008
Annual General Meeting, Frankfurt am Main, Germany	May 21, 2008
Payment of dividend*	May 22, 2008
Report on 1st half 2008 Conference call Live webcast	July 30, 2008
Report on 1st-3rd quarters 2008 Conference call Live webcast	November 4, 2008

* subject to the prior approval by the Annual General Meeting

Fresenius SE's Annual Report was published on March 11, 2008 at our website http://www.fresenius.com.

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Commercial Register: Amtsgericht Bad Homburg v. d. H.; HRB 10660
Management Board: Dr. Ulf M. Schneider (President and CEO),
Rainer Baule, Dr. Francesco De Meo, Dr. Jürgen Götz, Dr. Ben Lipps,
Stephan Sturm, Dr. Ernst Wastler
Chairman of the Supervisory Board: Dr. Gerd Krick

The German version of this Report is legally binding.

The financial statements of Fresenius SE are available on our website and may be obtained upon request at Investor Relations.

You will find further information and current news about our company on our website at: http://www.fresenius.com

Forward-looking statements:
This Report contains forward-looking statements. These statements represent assessments which we have made on the basis of the information available to us at the time. Should the assumptions on which the statements are based on not occur, or if risks should arise – as mentioned in the risk report – the actual results could differ materially from the results currently expected.